

1984

## CPA letter, 1984

American Institute of Certified Public Accountants

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### Recommended Citation

American Institute of Certified Public Accountants, "CPA letter, 1984" (1984). *Newsletters*. 129.  
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January 9, 1984  
Vol. 64 No. 1

# The CPA Letter

A Semimonthly News Report Published by the AICPA

## **FASB Seeks Comments on Timely Guidance and Changing Prices Disclosures**

The Financial Accounting Standards Board has issued two invitations for comments; one deals with the scope of FASB Technical Bulletins, the other with *Supplementary Disclosures About the Effects of Changing Prices*.

The first invitation results from a task force report recommending that, in order to provide more timely guidance, the board should expand the scope of technical bulletins and form an advisory group to assist the FASB in identifying emerging issues and implementation problems. Comments are sought on the proposed expansion and revised procedures for issuing the bulletins. Also, suggestions are requested on the proposed approach to establishing the advisory group, including its composition.

Written comments are due by March 15.

The invitation on disclosures raises issues directly related to FASB Statement no. 33, *Financial Reporting and Changing Prices*, which requires large publicly held companies to restate selected financial information on both a historical/constant dollar basis and a current cost basis. The board had committed itself to a review of Statement 33 requirements, issued in 1979, within five years of its publication.

The board hopes to receive more information about the data's usefulness, particularly from financial analysts and other users, and about problems encountered by management and auditors in implementing the Statement 33 requirements. It asks respondents to consider whether the FASB should continue to require the present or revised disclosures on an experimental basis or as a permanent part of financial reporting requirements, or whether the board should discontinue the requirements entirely.

The deadline for written comments is April 25.

Copies of both documents are available from the FASB's order department, High Ridge Park, Stamford, Conn. 06905.

## **SOP on "Single-Figure" Bank Reports Issued**

The Institute's accounting standards division recently issued a statement of position (SOP 83-1) entitled *Reporting by Banks of Investment Securities Gains or Losses*, which significantly amends the recommendations on accounting principles in the AICPA Industry Audit Guide, *Audits of Banks*, for bank income statements dated December 31, 1983 or later. The SOP recommends that

- ☐ Net investment securities or losses be presented on a separate line in the "other income" section of the bank's income statement. If not material, they may be included in "other income."
- ☐ Prior periods' interim and annual financial statements should conform with the one-step format.

The statement should apply to bank statements issued for periods ending on or after December 31, 1983.

Copies of the SOP are available from the AICPA order department at \$2.25 each (Product no. 014681).

Last March, the Securities and Exchange Commission amended Article 9 of Regulation S-X to require bank holding companies to report earnings in a "one-step" format. That requirement is effective for fiscal years ending on or after December 31, 1983—the same as in SOP 83-1.

**Two Members  
Expelled; Three  
Suspended Under  
AICPA Bylaws**

The following actions were taken recently under the automatic disciplinary provisions of the Institute's bylaws:

- ☐ The membership of Thomas J. Syzdek of Edina, Minnesota, was terminated on October 28, 1983, following receipt by the secretary of the Institute of a final judgment of conviction in the U.S. District Court, Minnesota, of felony theft.
- ☐ The membership of Joseph A. Becker of Ellicott City, Maryland, was terminated on November 9, 1983, following receipt by the secretary of the Institute of a final judgment of conviction in the U.S. District Court, Maryland, of failure to file tax returns.
- ☐ Larry Kent Pedersen of Fort Collins, Colorado, was suspended from membership for the period June 1, 1983, to December 1, 1983, coincident with the suspension of his CPA certificate by the Colorado State Board of Accountancy for violating the board's rule on independence.
- ☐ J. William Haney of Tucson, Arizona, was suspended from membership from April 29, 1983, to July 11, 1983, following receipt by the secretary of the Institute of notice of suspension of his CPA certificate for a similar period by the Arizona State Board of Accountancy for failure to comply with the state's continuing education requirements.
- ☐ The membership of Daniel Edward Murphy of Spokane, Washington, was suspended from June 22, 1983 to September 12, 1983, during the period that his CPA certificate was suspended by the Washington State Board of Accountancy for failing to comply fully with the board's continuing professional education requirements.

**Recent AICPA  
Publications**

*Tax Planning Tips from the Tax Adviser—1984*—This guide presents leading practitioners' experiences in hundreds of tax situations encountered in practice. Recommendations and advice on specific questions of tax planning and compliance are offered. Price is \$25; \$20 to members (Product no. 075844).

1983 Disclosure checklists developed by the Institute's technical information division are now available. Extracted from the AICPA *Audit and Accounting Manual*, this latest edition has been updated to reflect AICPA and FASB Statements in effect as of November 1983. Price is \$5; \$4 to members (Product no. 007349).

*Financial Report Survey 27: Illustrations of Accounting and Reporting by Development Stage Enterprises*—This book surveys the application of SFAS no. 7, on development stage enterprises. It presents 12 examples from recently published financial statements. Price \$9.50; \$7.60 to members (Product no. 037861).

*Accounting Education: A Statistical Survey 1982-83*—This report, the fourth of a series published every five years since the 1967-68 survey, presents a profile of accounting programs, faculty and other aspects of two-year, four-year and graduate institutions. The survey was written by Dean Doyle Z. Williams of the School of Accounting of the University of Southern California. The product number of this free publication is G00020.

All publications are available from the AICPA order department. If net total order is under \$10, add postage and handling charge of \$2.

### **IFAC Approves Third Education Guideline**

The International Federation of Accountants recently issued its third international education guideline, IEG 3, entitled *Test of Professional Competence*. Prepared by its education committee, the guideline covers in general terms the matters to be considered when an education program or method of assessing students is being reviewed as a test of professional competence to determine whether students are qualified in the skills essential for the tasks to be undertaken. It recognizes that there must be consistency of subject content in successive tests and that procedures must be established by which the standard of difficulty is determined and graded. To be professionally competent, the statement says that an accountant should have the following:

- ☐ The required sum of knowledge relevant to his profession.
- ☐ The ability to apply that knowledge to practical problems.
- ☐ A professional approach to work.

Copies of the statement are expected to be available from the AICPA order department in February, at a price to be determined.

IFAC was established in 1977 by representatives of more than 50 nations with the broad objective of developing a coordinated international accountancy profession with harmonized standards. To further this, the group initiates and guides efforts to achieve international, technical, ethical and educational guidelines for the accounting profession and reciprocal recognition of practice qualifications between national bodies.

### **Industry, Quality of Life Conferences Set**

The Ninth National Industry Conference will be held April 26-27, 1984, at the Hyatt Regency Hotel, New Orleans. Formerly the National Conference for CPAs in Industry, the conference has been designed to meet the special interests of this portion of the membership and will provide updates on current financial developments affecting American business.

Speakers include Lewis H. Young, editor-in-chief, *Business Week*; Thomas S. Haggai, chairman of the board, IGA, Inc.; and B. Z. Lee, AICPA chairman.

Concurrent sessions and workshop discussion sessions will focus on topics such as cost reductions and value analysis, computerized tools for the future, performance improvement planning, cash management systems, pensions, tax planning for small business executives and debt and equity financing.

A brochure about the conference will be mailed in February to all AICPA members in industry. Other members and corporate executives are also welcome at the conference. For further information, contact the AICPA meetings department.

The Institute's management of an accounting practice committee will hold its fifth Quality of Life Seminar at the Hotel del Coronado in San Diego on May 16-18. The seminar, which is specifically designed for CPAs and their spouses, will offer practical suggestions on how a planned approach to living can positively affect firm operations and personal lives.

For further information, contact David McThomas at the AICPA (212/575-6439).

#### **USE STREET ADDRESSES FOR ORDERS—PLEASE**

Some AICPA members have experienced delays in receiving shipments to post office boxes. The AICPA order department ships orders via the United Parcel Service. The UPS, however, does not deliver to P.O. boxes. Thus, when an order, received at the AICPA, indicates only a P.O. box, the material is sent via 4th class mail, which can take up to several additional weeks to arrive. To ensure speedy delivery, please supply a street address.

### **FASB Exposes Draft on Recognition and Measurement**

The FASB has issued an exposure draft of a Statement of Financial Accounting Concepts that sets forth guidance for determining what information should be incorporated in financial statements and when. It presents the recognition and measurement concepts on which the board members have agreed.

According to FASB Chairman Donald J. Kirk, this proposal "does not call for major changes from present accounting, but it does allow for evolutionary change." He said that concepts are meant to provide tools for helping to solve problems rather than to solve specific problems directly.

In addition to recognition and measurement, the proposal discusses cash flows, earnings and comprehensive income together with the present and potential differences between those concepts. It describes a concept of earnings similar to et income in present practice, but subject to the same process of gradual change that has affected net income in the past.

Comments are due by June 28 and copies of the draft can be obtained from the Order Department, FASB, High Ridge Park, Stamford, Conn. 06905.

### **Speeches Explain Division for Firms**

To help explain the Institute's division for CPA firms' role in fostering quality performance by CPAs, the AICPA recently developed two speeches for use by division members, state CPA societies and other organizations within the accounting profession. One talk, *How Does Your CPA Firm Achieve Quality Performance*, is designed to explain to business audiences how firms' compliance with quality control standards and their participation in peer review benefits the users of CPA services. The second, intended primarily for CPAs, is titled *Improving Your Firm's Quality of Practice*. It describes quality controls and peer review and their benefits to firms.

For further information, contact the Institute's private companies practice section (212/575-6446).

### **Division for CPA Firms Resumes Growth**

As reported in the September 26, 1983, *Letter*, then Chairman Rholan Larson sent a special message to firms that were nonmembers of the division for CPA firms urging them to join the division. He also discussed the division's benefits and accomplishments in an article in the September issue of the *Journal of Accountancy*. The staff reports that, as a result of these actions, membership in the division has resumed its upward trend and stands at 1,732 firms at December 22, as compared to the 1,629 firms listed in the recently published directory of member firms as of September 1, 1983.

### **Accountability is Subject of Third World Conference**

A conference, which has been described as a major step toward developing educational standards for the accounting profession worldwide, will be held in Manila, the Philippines, on November 12-16. Participation in the meeting, which is sponsored by the International Federation of Accountants, the Asian Development Bank and the World Bank, will be by invitation only and will be limited to about 150 to 200 persons. Most of them will be from developing countries in the South and East Asian area. A limited member of individuals may be permitted to attend the conference as observers.

The objectives of the conference are to identify within this region:

- ☐ Constraints on increasing the level of accountability, particularly factors inhibiting the enhancement of accounting and auditing capabilities.
- ☐ Specific short-, medium- and long-term programs of accounting education most suited to overcoming such constraints.
- ☐ Strategies for developing programs in specific developing countries.

### **ASD Initiates Auditing Procedures Study Series**

The Institute's auditing standards division will shortly issue the first in a series of Auditing Procedure Studies, which are designed to inform auditors of developments and advances in auditing procedures.

The first in the series, *Confirmation of Accounts Receivable*, to be issued later this month, is geared to provide practitioners with nonauthoritative practical assistance. It presents 15 practical suggestions for improving the effectiveness and efficiency of the receivable confirmation process by increasing the quality and quantity of confirmation responses. The study was prepared by a study group formed in cooperation with the auditing standards committee of the American Accounting Association and represents their views.

This study has not been acted upon by the auditing standards board or the AICPA's governing body and, therefore, does not represent an official pronouncement of the Institute.

Copies of the study will be available later this month from the AICPA order department. The price is \$5.00; \$4.00 to members (Product no. 021011).

### **AcSEC Highlights**

At its December 7-9 meeting, the Institute's accounting standards executive committee took the following actions:

- ☐ Approved for final issuance the proposed audit and accounting guide, *Brokers and Dealers in Securities*, subject to negative clearance by AcSEC and clearance by the Financial Accounting Standards Board.
- ☐ Approved for final issuance the proposed guide, *Audits of Casinos*, subject to revisions to be cleared by AcSEC and the auditing standards board and clearance of the entire document by the FASB.
- ☐ Approved a comment letter to the FASB on the board's exposure draft, *Elimination of Certain Disclosures for Business Combinations by Nonpublic Enterprises*.

### **AICPA PUBLIC MEETING NOTICES**

#### **Accounting and Review Services**

An open meeting of the accounting and review services committee will be held in New Orleans on February 3 starting at 9:00 a.m. in the Royal Orleans Hotel. The agenda, which has not yet been determined, will be reported by the meetings information telephone service.

The next meeting is scheduled for March 23 in New York.

#### **Accounting Standards**

The accounting standards executive committee will hold an open meeting in the AICPA boardroom, New York on January 31-February 2, starting at 8:30 a.m. the first day; 9:00 a.m. subsequently. The agenda will be reported by the telephone service.

The next meeting is scheduled for March 20-22 in Los Angeles.

#### **Federal Taxation**

The federal tax division's executive committee will hold an open meeting on February 2-3 at the Bahia Mar Hotel in Fort Lauderdale starting at 9:00 a.m. each day. The agenda has not been set, but will be reported by the telephone service.

The next scheduled meeting is in Denver on July 12-13.

**The number of the meetings telephone information service is 212/575-5694.**

## Washington Briefs

*Focus Likely to be on Accountants in 1984*—Fresh attention is likely to be focused on accountants' compliance in coming months, warned SEC Enforcement Director John Fedders in a recent speech, and not all of it will come from the SEC. Fedders noted that there is a widespread belief, particularly in Washington, D.C., that when auditors certify financial statements, they are, or should be, certifying the absence of fraud.

*Consumption and Simplified Tax Bills Introduced*—Two radical proposals for changing our current federal tax system were introduced in Congress before its adjournment. One bill calls for the replacement of individual and corporate income taxes with a consumption tax, a concept supported by some economists and certain officials in the Reagan Administration. Another bill takes a different tack to income tax reform by broadening the tax base and lowering tax rates. Taxable income would be subject to six new tax rates from 6 to 30 percent and the rates would be adjusted annually for inflation.

*Final Circular 230 Expected Soon*—Final revisions to the Treasury Department's Circular 230, which includes rules for providing opinions used in connection with tax shelter opinions, should be issued within two months. Speaking at the fall meeting of the Institute's tax division in California last month, Leslie Shapiro, director of practice at the IRS, said that the final rules will address "head on" many of the concerns raised earlier this year by the AICPA and the American Bar Association. Shapiro said that the new rules should not contain any policy changes, but will include a clear requirement that tax accountants—like tax lawyers—must vouch for the allowability of the tax benefits claims made by a tax shelter promotion.

*AICPA Meets on Tax Issues*—The Institute's tax administration subcommittee met recently with senior IRS officials responsible for compliance, operations, taxpayer service and returns processing to discuss matters of concern to practitioners. Minutes of the discussion, dealing with such topics as taxpayer warning letters and unwarranted penalty notices, appear in the January *Tax Adviser*.

*SEC Rescinds Interpretive Release*—The SEC recently rescinded Financial Reporting Release no. 3 relating to the extinguishment of debt through in-substance defeasance in light of the issuance of SFAS no. 76 by the Financial Accounting Standards Board (see December 12 *Letter*).

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## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036

Second-class postage paid at New York, N.Y.

January 23, 1984  
Vol. 64 No. 2

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AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

# The CPA Letter

1211 AVENUE OF THE AMERICAS  
NEW YORK, N. Y. 10020

A Semi-monthly News Report Published by the AICPA

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## FASB Pension Proposals Draw Fire at Hearings

Strong disagreement was evident at the Financial Accounting Standards Board's five-day public hearing this month on employers' accounting for pensions and other postemployment benefits. In opening the hearing, FASB Chairman Donald J. Kirk noted that the comment letters received "indicate many of the aspects of the board's proposals are controversial." A majority of the 60 speakers representing industry, the accounting profession and business organizations expressed concern about the FASB's approach expressed in its *Preliminary Views*, which served as one of the bases for the hearing.

Roger B. Smith, chairman of General Motors Corporation, representing the Business Roundtable, for instance, took strong exception to the board's current proposals, noting that "there is no compelling need for revolutionary changes." He expressed concern that the FASB "may be losing touch with its constituency in that there is neither broad-based support nor demonstrable need" for the changes proposed.

The board's proposals would, among other things, place net pension liability on the balance sheet—rather than in the footnotes to the financial statements—of employers sponsoring defined benefit pension plans. This issue, probably the most controversial according to board chairman Kirk, would create large liabilities "that weren't there before," said a number of industry spokesmen. Many speakers felt that such a liability isn't real and hence should not be on the balance sheet.

The board expects to issue an exposure draft on pension accounting some time later this year.

## SEC Placing Greater Reliance on Private Sector

Recent initiatives by the SEC "are placing greater reliance on the private sector to establish financial reporting principles and to enforce high standards of conduct within the accounting profession." Speaking at the AICPA's 11th National Conference on Current SEC Developments this month, John S. R. Shad, SEC chairman, noted that a key factor in the self-regulatory area is the AICPA's division for CPA firms and expressed the hope that its program can be strengthened. He cited peer reviews in particular. "Based on reviews of peer review work papers and Public Oversight Board files, the staff (SEC) has concluded that the commission can rely heavily on the POB's oversight of the peer review program in fulfilling the SEC's responsibilities," he added.

John M. Fedders, director of the SEC's enforcement division, speaking at the conference, focused on the division's investigation of financial fraud, particularly as to the criteria taken into consideration by the SEC in determining action against accounting firms. The most prominent factor in recent cases, he said, is whether or not management has been "cultivating an atmosphere of professionalism."

Also, Senator Alfonse D'Amato (R-N.Y.), a member of the Senate Banking Committee, told the more than 450 attendees that the only major piece of financial legislation that will be approved this year will be one providing stiffer penalties for insider trading violations. "If we catch you and prove it, you can expect to pay triple damages," he warned.

For further information on the conference, see the March *Journal of Accountancy*.



## **IFAC to Issue Two Statements**

At its recent meeting in New Delhi, the international auditing practices committee of the International Federation of Accountants approved issuance of the following international auditing guidelines:

- ☐ IAG 14, entitled *Other Information in Documents Containing Audited Financial Statements*, discusses the auditors' responsibility for other information on which he has no statutory obligation to report and provides guidance on the actions he should undertake if a material inconsistency or misstatement of fact is discovered in such information.
- ☐ IAG 15, *Auditing in an EDP Environment*, provides guidance on the additional procedures necessary to comply with the basic international auditing principles when conducting an audit in an EDP environment.

The statements are expected to be available early next month from the AICPA order department, at prices to be determined.

IFAC was established in 1977 by representatives of more than 50 nations, now 65, with the broad objective of developing a coordinated international accountancy profession with harmonized standards. To further this, the group initiates and guides efforts to achieve international, technical, ethical and educational guidelines for the accounting profession and reciprocal recognition of practice qualifications.

## **Upcoming AICPA Conferences**

**PCPS**—The private companies practice section of the Institute's division for CPA firms has set May 6-8 for its sixth national conference. To be held at the Denver Marriott Hotel-City Center, the conference will focus on the latest professional and technical developments related to the practices of local and regional firms. New this year will be a mini-forum on innovative financing of closely held businesses designed and presented by INC magazine.

On May 9, following the conference, the Institute's CPE division, in cooperation with the division for CPA firms, will present a full-day course on conducting peer reviews. The registration fee is \$245 for the conference and an additional \$100 for the optional course.

**Microcomputers**—The third annual AICPA microcomputer conference is set for May 20-23 at the Biltmore Hotel in Los Angeles. This year's program is organized into an introductory track, an intermediate track and advanced forums. Also, more than 40 hardware and software vendors will provide demonstrations. Fee is \$375.

For information, contact the AICPA meetings department (212/575-6451).

## **Recent Publications**

The Institute's state and local government accounting committee has developed a questionnaire to help auditors apply the criteria contained in NCGA Statement no. 3, *Defining the Governmental Reporting Entity*. The questionnaire is available free from the AICPA order department (Product no. G00060).

The latest program in the CPA Video Journal series is no. 31, *Assisting Small Business Clients in Obtaining Funds*, which is based on an AICPA management advisory services small business consulting practice aid. For further information, contact Teresa Zimmerer at the AICPA (212/575-5573).

The price of SOP 83-1, *Reporting by Banks of Investment Securities Gains and Losses*, (Product no. 014681) is \$1.75, not \$2.25 as reported in the January 9 *Letter*.

## AICPA SERVICES

The following is a listing of the direct telephone numbers for principal AICPA services and staff activities. Please retain it for prompt service on your inquiries. For other information, the main AICPA number is (212) 575-6200; Telex: 70-3396; Facsimile: (212) 575-3846.

### Most Frequently Requested Services

*Benevolent Fund* (212) 575-6202

#### Continuing Professional Education

General CPE information including

In-house and Videotape

programs

toll free (800) A-I-C-P-A-N-Y

New York State (212) 575-5696

Individual study courses

(212) 575-6426

#### Insurance and Retirement Programs

(Rollins Burdick Hunter Co.)

CPA Life Plan

(800) 223-7473

Group Life Plan

(800) 221-3019

Long Term Disability

(800) 221-4722

Professional Liability

(800) 221-3023

In New York, for above, call collect (212) 661-9000

#### Library Services

(800) 223-4155

New York State (800) 522-5434

#### Membership Records

(212) 575-6421

#### Membership (Admissions)

6410

#### Professional Ethics

Independence and Behavioral Standards

6216 or 6299

Technical Standards

6246

#### Publication Sales and Other Orders

Credit and Collections

6459

Circulation—Magazines

5505

Order Department—Misc. Publications

6426

Customer Service

6428

#### Technical Information Service\*

Accounting and Auditing Practice Questions (800) 223-4158

New York State (800) 522-5430

Computer Applications Questions

(212) 575-6297

### Principal Staff Activities

#### Committee Appointments

Torny Berntsen

6449

#### Division for CPA Firms

Quality Control Review

Dale Rafal

6396

Private Companies

Practice Section

John Mitchell

6359

SEC Practice Section

Arthur Renner

6367

#### Examinations

Mitchell Rothkopf

6495

### Government Relations

Federal Government Relations Joseph Moraglio

(202) 872-8190

Federal Legislative Affairs

Nicholas Nichols

8190

Federal Taxation

Kenneth Thomas

8190

### International Relations

Thomas Kelley (212) 575-6656

### Management of an Accounting Practice

Nancy Myers

6436

### Meetings and Travel

Charles McGrath

6444

### National Automated Accounting Retrieval Service (NAARS)

Hortense Goodman

6393

### Publications (Editorial)

Journal of Accountancy

Barbara Shildneck

6272

Newsletters

Roderic Parnell

6274

CPA Client Bulletin

Arthur Lodge

6277

The CPA Letter

Stephen Collins

6273

The Practicing CPA

Graham Goddard

6278

The Tax Adviser

Nicholas Fiore

6314

Washington Report

Gina Rosasco (202) 872-8190

### Regulation

Professional Ethics

Herbert Finkston

(212) 575-6209

State Legislation

William Crane

6210

Joint Trial Board

William Tamulinas

3852

### Relations with Members and Other Groups

Relations with Educators

and Students

James MacNeill

6357

Industry Member Programs

and Small Business

Development (Minority)

Nancy Myers

6436

Minority Recruitment and

Equal Opportunity

Sharon Donahue

7641

Public Relations

Bradford Smith

3877

State Society Relations

James Flynn

3882

### Technical Standards\*

Accounting and Review

Services

John Santora

5522

Accounting Standards

Paul Rosenfield

6368

Audit and Accounting Guides

Don Pallais

3850

Auditing Standards

Dan Guy

6377

Management Advisory

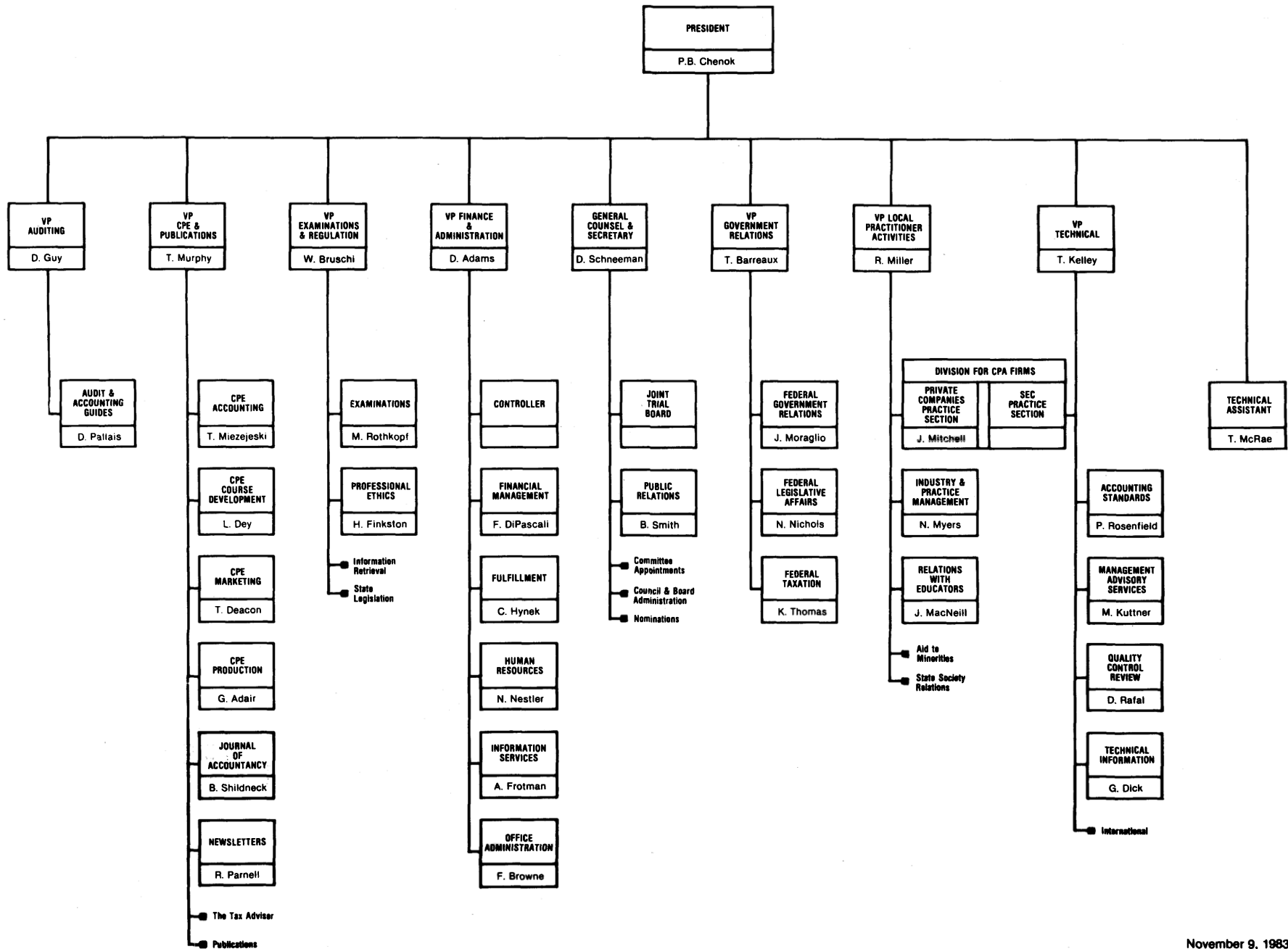
Services

Monroe Kuttner

6363

\*Note: Inquiries on publications sent to members should be referred to the Order Department and not to the division issuing them. Also, all accounting and auditing practice questions should be directed to the Technical Information Service.

# STAFF – AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS



## STATEMENT BY THE AICPA INSURANCE COMPANIES COMMITTEE

The AICPA insurance companies committee recommends the following guidance to practitioners in accounting and disclosure for insurance enterprises.

### *Accounting and Disclosure for Income Taxes of Stock Life Insurance Companies in 1983 Financial Statements—*

In 1981 Congress passed the "Stop Gap" tax bill which revised certain provisions of the Internal Revenue Code as it relates to life insurance companies. Part of the legislation provided that Stop Gap would be in effect for only 1982 and 1983 and that, on its expiration, provisions of the tax law for life insurance companies generally would revert to the provisions in effect before 1982 unless a new tax bill were passed. Stop Gap expired on December 31, 1983, and the laws in effect on January 1, 1984, are those that were in effect before Stop Gap.

In late 1983, proposed tax legislation for life insurance companies was introduced in Congress (the "Stark-Moore" bill). Although it is expected that a new tax bill will be passed in 1984 and be retroactive to January 1, 1984, the final provisions of the bill are uncertain.

In accounting for income taxes in 1983 financial statements of stock life insurance companies, the AICPA insurance companies committee recommends that

- ☐ The provision for income tax expense in 1983 be based on the income tax laws in effect during 1983.
- ☐ The computation of the tax provision be made in accordance with the requirements of FASB Statement no. 60. In determining the provision for 1983 under paragraph 55 of FASB Statement no. 60, it is recommended that a company use the same assumption that it used in determining the provision in 1982 as to the tax law that would be in effect after 1983.
- ☐ In addition to the disclosures required by FASB Statement no. 60, the financial statements disclose that the tax amounts have been computed under laws in effect at December 31, 1983, and that there is a pending tax law change, which, if passed, could affect future years.

The committee also encourages companies to discuss the proposed new tax bill in communications accompanying financial statements (for example in management's discussion and analysis of financial condition and results of operations) because the new tax law could significantly affect future operations.

### *Accounting and Disclosures for Reinsurance Transactions—*

Certain reinsurance transactions in the property and liability insurance industry, often referred to as portfolio loss reserve reinsurance arrangements or "sales of loss reserves," have recently received increased attention. Under those transactions, property and liability insurance companies cede loss reserve liabilities to assuming reinsurers together with the payment of an amount that is generally less than the total estimated future payments required to liquidate the claims. Auditors of the financial statements of property and liability insurance companies are reminded that they may need to give particular consideration to the methods of accounting for such assumed or ceded transactions and related financial statement disclosures.

FASB Statement no. 60, paragraph 40, requires: "To the extent that a reinsurance contract does not, despite its form, provide for indemnification of the ceding enterprise by the reinsurer against loss or liability, the premium paid less the premium to be retained by the reinsurer shall be accounted for as a deposit by the ceding enterprise. Those contracts may be structured in various ways, but if, regardless of form, their substance is that all or part of the premium paid by the ceding enterprise is a deposit, the amount paid shall be accounted for as such. A net credit resulting from the contract shall be reported as a liability by the ceding enterprise. A net charge resulting from the contract shall be reported as an asset by the reinsurer." FASB Statement no. 5, paragraph 44, includes a similar requirement that the contract provide for indemnification of the ceding enterprise against loss or liability in order for amounts to be charged or credited to income.

Often, the exercise of judgment is necessary in determining whether a reinsurance contract provides for indemnification of the ceding enterprise by the assuming reinsurer against loss or liability. Circumstances that may indicate the absence of such indemnification include, but are not necessarily limited to, the following:

- ☐ Contractual provisions that provide for a significant period of time before the reinsurer is required to reimburse the ceding enterprise.
- ☐ Contractual provisions that relieve the assuming reinsurer of its obligations under circumstances that are likely to occur.
- ☐ The existence of retrospective rating, expense, or profit-sharing arrangements.
- ☐ A reinsurer with insufficient financial resources to satisfy its obligations under the reinsurance contract.

The auditor also should be mindful of paragraph 60f of FASB Statement no. 60, which requires disclosure in the financial statements of the nature and significance of reinsurance transactions to the insurance enterprise's operations.

## Washington Briefs

**Supreme Court to Decide on Notifying Probe Targets**—The U.S. Supreme Court recently agreed to decide if the SEC and other agencies must notify potential targets of investigations before issuing subpoenas to third parties. A federal appeals court in California had previously ruled that the SEC must notify targets of probes before seeking data from third parties who aren't under investigation. The Justice Department contends that the lower court ruling, if allowed to stand, would hamper investigations by some 35 federal agencies.

**Unitary Tax Issue Still Hot**—The U.S. Supreme Court also, for the second time, refused to hear an appeal involving the so-called unitary tax. The second case, brought by Alcan Aluminum Ltd., follows on the heels of the Court's refusal to hear a case brought last December by Shell Oil Co. The unitary tax permits states to tax multinational corporations on their in-state and out-state income and apportions.

**New Backup Withholding Rules for Brokers**—The IRS, late last month, issued a fourth set of temporary regulations on the backup withholding rules that became effective January 1. The new rules, which deal with security brokers, provide that, at the broker's option, the written certification requirement for post-1983 accounts can be delayed until March 31, 1984.

**Treasury to Wait for Congress on Fringe Benefits**—Treasury Secretary Donald Regan recently said that, in order to provide time for Congress to act, the Treasury Department will not issue any regulations on the tax treatment on nonstatutory fringe benefits before January 1, 1985. Although the current moratorium expired on December 31, the Treasury expects Congress to act in this area early this year.

**OCC Seeks Applicants for Fellowship**—The Office of the Comptroller of the Currency is now accepting applications for its Professional Accounting Fellowship Program. One candidate will be selected to begin the two-year term in either March or April. The candidate should have a minimum of five years' public accounting experience with an understanding of bank accounting and be a CPA. Copies of the announcement describing the program are available from Zane Blackburn, Director, Bank Accounting Division (202/447-0471) at the Comptroller of the Currency, Washington, D.C. 20219.

**SEC Speaks in 1984**—SEC Chairman John S. R. Shad will again be the keynote speaker at the Practising Law Institute's 13th annual SEC Speaks Conference, to be held March 2-3 in Washington, D.C. For further information, contact the PLI, 810 Seventh Avenue, New York, N.Y. 10019.

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## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036

Second-class postage paid at New York, N.Y.

February 13, 1984  
Vol. 64 No. 3

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# The CPA Letter

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**A Semimonthly News Report Published by the AICPA**

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## **Highlights of AICPA Board of Directors Meeting**

Among the actions taken by the AICPA board of directors at its January 26-27 meeting were the following:

- ☐ Agreed to recommend that council authorize a mail ballot of the membership to amend the existing rule of conduct banning contingent fees. The proposed rule would prohibit providing professional services when fees are contingent on findings or results of independence-related engagements.
- ☐ After hearing a report on comments received on the proposed ethics interpretations defining the terms "client" and "professional services" as used in the existing rule of conduct prohibiting commissions, agreed to discuss alternative courses of action with council.
- ☐ Decided to seek views and advice during the March regional meetings of members of council on a request by the Colorado Society of CPAs that the Institute develop a national program to accredit specialists.
- ☐ Endorsed a Financial Accounting Foundation agreement concerning the structure for a Governmental Accounting Standards Board (see separate story below).
- ☐ Approved a plan for implementation of the voluntary membership AICPA tax division authorized by council last October.

## **Plan for New GASB Approved**

A plan to establish a Governmental Accounting Standards Board to develop guidelines for financial accounting and reporting by state and local governmental units has been approved by the Financial Accounting Foundation. The new GASB, which will operate under the auspices of the FAF similarly to the Financial Accounting Standards Board, will attempt to unify practices of the nation's 100,000 state and municipal entities and provide investors with a better means of comparing financial data among governmental issuers.

The FAF trustees voted to organize the GASB to establish financial reporting standards for state and local governmental units, while the FASB will continue to establish standards for all other entities. In the absence of a GASB standard for a particular activity or transaction existing in both the public and private sectors, governmental entities will be expected to look to FASB standards for guidance.

The plan was recently approved by the AICPA's board of directors (see above highlight) and the National Association of State Auditors, Comptrollers and Treasurers. The Municipal Finance Officers Association and the national organizations representing elected state, city and county officials must still give their formal approval.

The GASB will have a five-member board (appointed for five-year terms after approval by a new Governmental Accounting Advisory Council), including a full-time chairman, and be located in the same Stamford, Conn. headquarters as the FASB.

"There is no reason for me to believe that the GASB won't be a reality and the board in place in the first half of 1984," said Paul A. Pacter, FAF executive director.

### **Court Rules on Amending Fraudulent Return**

Taxpayers who file a fraudulent return and then file an amended return for the same year may still be assessed tax "at any time," even after the three-year limitation on tax assessments has expired. In a recent U.S. Supreme Court decision, involving two essentially similar cases, a judicial conflict regarding this area was resolved.

Writing for the Court, Justice Harry Blackmun said that the cases were "squarely controlled by the clear language of section 6501(c)(1)." Nothing in the statute, said the Justice, permits a fraudulent filer to suspend by his subsequent repentant conduct the operation of this code section, or to reinstate the general three-year limitations period by filing an amended return. The Court said that the unambiguous language of the statute allows the IRS an unlimited period within which to assess tax where a false or fraudulent original return was filed.

In other court matters, on January 16, attorneys for Arthur Young and Amerada Hess Corporation argued that IRS access to tax accrual work papers should be denied. The Supreme Court agreed to hear a government petition for review of an earlier decision by the U.S. Court of Appeals, which upheld Arthur Young's claim of privileged communication. A decision is expected by this summer.

### **National Banking School Set**

The Institute, in cooperation with the University of Virginia's McIntire School of Commerce, will hold its fifth national banking school program this spring at the University's campus in Charlottesville. The program is designed to give practitioners greater insight into the decision-making process at small and medium-sized banks and will focus on regulatory, tax and compliance concerns of commercial banks.

Unit 1, geared to those having a general knowledge of the banking industry, will be given May 14-17. The program will provide an in-depth study of the commercial banking industry and an update on emerging issues. It will include lectures, discussions and case studies on such areas as the regulatory framework governing the banking industry, compliance requirements of commercial banks and the recent AICPA audit and accounting guide for banks. There will also be problem-solving exercises involving a bank management simulator.

Unit 2, designed for those who have attended Unit 1, will be held June 25-28. It will focus on such areas as taxation, bank audit administration, mergers and acquisitions, holding companies and bank performance objectives and measurement.

Registration is \$875. For further information, contact the CPE marketing department (212/575-6643).

### **Minority Scholarships Announced**

The Institute's minority recruitment and equal opportunity committee recently announced the award of 64 scholarships for the second half of the 1983-84 academic year. The students, from 48 colleges and universities, received scholarships totaling \$19,250. Included were 8 RCA-AICPA scholarship awards totaling \$2,250 and 16 General Mills-AICPA awards totaling \$5,000. This brings the total to 417 scholarships totaling \$221,500 for the entire academic year.

"Our goal is to encourage minority students to become CPAs; our method is to encourage scholastically talented students by giving them financial assistance," said Sharon Donahue, manager, aid to minority students at the AICPA. For further information, contact Ms. Donahue at the AICPA (212/575-7641).

### **AICPA-NASBA Joint Concerns Discussed**

The second National Conference on State Regulation of the Profession, jointly sponsored by the AICPA and the National Association of State Boards of Accountancy, was held last month in San Antonio. Both Philip B. Chenok, AICPA president (whose remarks were presented by William Bruschi, AICPA vice-president—examinations and regulation) and C. Hunter Jones, NASBA president, urged continuation of the present strong cooperation between the two bodies as being in the best interests of the groups as well as the public interest. Both also agreed that loss of power and authority of state boards of accountancy through centralization and consolidation of state professional licensing boards is one of the more important concerns facing the accounting profession today.

A key concern voiced at last year's conference was the difficulty some state board regulators had in administering the Uniform CPA Examination. The response this year, according to AICPA President Chenok's remarks, was to create a joint not-for-profit corporation called ESCORP to provide full examination services to those states wishing to contract for such services. ESCORP currently has four states under contract. "Simply put, ESCORP was created to provide administration services to those states that have a need for them with the consequent protection of the integrity of the CPA examination."

For more on the conference, see the March *Journal of Accountancy*.

### **Revenue Sharing Amendments Cited**

The Office of Revenue Sharing has advised the AICPA of three changes in audit requirements included in the Local Government Fiscal Assistance Amendments of 1983. They are

- ☐ Generally accepted government auditing standards as issued by the Comptroller General of the U.S. are to be used in examinations instead of generally accepted auditing standards. The existing standards include those published in the "Yellow Book."
- ☐ An annual audit will be required for a government receiving over \$100,000 during its fiscal year. An audit can be made on a biennial basis covering both years only where the local government presently operates on a biennial fiscal basis. A government which receives \$25,000 to \$100,000 for each of three consecutive years continues to be subject to audit at least once every three years.
- ☐ A recipient government must make its audit report available to the public within 30 days after the completion of the audit.

For further information on these changes, which are effective for governmental fiscal years beginning on or after October 1, 1983, contact the Audit Division, Office of Revenue Sharing, 2401 E Street N.W., Washington, D.C. 20226.

### **Prospective Financial Statement Project Moves Ahead**

At its meeting last month, the Institute's auditing standards board voted to seek comments from other affected AICPA committees in anticipation of exposing for public comment a proposed standard on prospective financial statements. The standard would provide guidance to accountants on the procedures to be performed, and how they should report, when they review or compile financial forecasts or financial projections. The statement would not cover prospective financial statements that are restricted to internal use.

### **AICPA PUBLIC MEETING NOTICE**

#### **Auditing Standards**

The auditing standards board will hold an open meeting on March 6-8 at the Boneventure Intercontinental Hotel in Fort Lauderdale starting at 8:00 a.m. each day. The agenda has not been set but will be reported by the meetings information telephone service at 212/575-5694.



## Washington Briefs

**SEC Position on ADAPSO Petition Clarified**—In a letter to be published in the *March Journal of Accountancy*, SEC Chief Accountant Clarence Sampson states that in its recent rejection of a petition by the Association of Data Processing Service Organizations, the commission did not determine that accountants may perform all computer-related services for audit clients. Accountants “have a basic responsibility to assure that their performance of any nonaudit services does not adversely affect their independence.” The petition was rejected because the area of nonaudit services had been reviewed when the SEC withdrew ASR no. 264 and rescinded the proxy rules requiring disclosure about nonaudit services. He said that the commission did not change prior interpretations on services that it believes would adversely affect independence, such as writeup and bookkeeping services.

**Tax Return Checklists Available**—An AICPA tax subcommittee has prepared preparation and review checklists for individual, partnership, corporation and S corporation tax returns. These checklists are designed to help practitioners and comments are sought to improve their usefulness in future years. For copies, send a self-addressed 9 × 12 envelope, along with a check for \$2.50 payable to the AICPA, to Checklists, AICPA, P.O. Box 1012, New York, N.Y. 10108-1012.

**Tip Tax Brings Suit**—A lobbying group representing restaurant and hotel chains recently sued the federal government to block tax regulations that would require employers to allocate 8 percent of gross receipts from food and beverage sales as tip income to waiters and waitresses. The suit charges that the regulations would illegally allocate substantially more tips to these workers “for which the IRS will automatically claim taxes not lawfully due.”

**Cool to Tax Amnesty Proposal**—Despite the apparent success of a tax amnesty program in Massachusetts, a similar program of granting amnesty to those who cheat on their federal tax returns has received a cool reception in Washington. Both Senate Finance Committee Chairman Robert Dole (R-Kan.) and House Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.) have indicated that such a program on a state level would be far less successful on the federal level. The IRS also says it stands by a prior position of opposing the tax amnesty approach.

**CPA Heads Postal Board**—AICPA member John R. McKean, a San Francisco practitioner, has been elected chairman of the Board of Governors of the U.S. Postal Service. The 11-member board directs the exercise of the postal service's powers and sets policy on all postal matters.

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## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036

Second-class postage paid at New York, N.Y.

February 27, 1984  
Vol. 64 No. 4

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# The CPA Letter

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A Semimonthly News Report Published by the AICPA

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## **FASB Issues Statement on Business Combinations . . .**

Private companies are no longer required to disclose pro forma results of operations for business combinations accounted for by the purchase method, according to a statement issued recently by the Financial Accounting Standards Board. SFAS no. 79, *Elimination of Certain Disclosures for Business Combinations by Nonpublic Enterprises*, eliminates the pro forma disclosure requirement in APB Opinion no. 16, *Business Combinations*, for private companies. The disclosures, however, continue to be required for public companies.

"The board made SFAS no. 79 effective immediately—private companies that have not issued their 1983 financial statements are permitted to omit the pro forma disclosures," said FASB Practice Fellow Keith Wishon, manager of the board project. The statement is essentially the same as the draft exposed last October. The Institute's special committee on accounting standards overload had urged that these disclosure requirements be eliminated for private companies.

Copies of the statement are available from the FASB's order department, High Ridge Park, Stamford, Conn. 06905.

Also, at a meeting on February 8, the FASB did not add reconsideration of SFAS no. 13, *Accounting for Leases*, to its formal agenda. The board, however, acknowledging that accounting for leases is a pervasive problem, directed the staff to prepare what would amount to a "prospectus" for reconsidering the statement and, in a separate effort, to segment SFAS no. 13 into separate volumes for lessees and lessors and to simplify the wording without changing the requirements.

## **. . . And Splits Pension Project**

The Financial Accounting Standards Board recently divided its project on employers' accounting for pensions and other postemployment benefits into two separate, but concurrent, projects. One will focus solely on accounting for pension benefits, while the other will deal with accounting for other postemployment benefits, such as health care and life insurance.

"Many respondents to the board's preliminary views document and the subsequent discussion memorandum suggested that the other postemployment benefit issues are being overshadowed by the pension issues," said Betsey A. Cropsey, FASB assistant project manager. "The board believes that considering the postemployment benefit issues separately may help to focus more attention on those issues and may lead to a final statement on other postemployment benefits before a final statement on pension accounting," she added.

The FASB held a five-day public hearing in January covering pension and other postemployment benefit issues (see January 23 *Letter*).

## **In-Substance Defeasance To Be Clarified**

The FASB also recently issued a proposed technical bulletin (no. 84-A) entitled *In-Substance Defeasance of Debt* to answer several questions relating to SFAS no. 76, *Extinguishment of Debt*. The board said that the provisions of SFAS no. 76 are intended to apply to the in-substance defeasance of previously outstanding debt, not newly issued debt. The board also emphasized that cash inflows to the trust be essentially risk free and that any related risks be currently remote. Comments on the proposal are due by March 19.

## **Recent AcSEC Actions**

At its meeting earlier this month, the Institute's accounting standards executive committee took the following actions:

- ☐ Approved two issues papers, *Accounting for Costs of Software for Sale or Lease* and *Accounting for Key Person Life Insurance*, for submission to the Financial Accounting Standards Board.
- ☐ Approved an experiment, *Guidance for an Experiment on Reporting Current Value Information for Real Estate*, to accumulate information and comments on the relevance and reliability of reporting current value in financial statements of real estate companies.
- ☐ Approved a letter of comment on the FASB discussion memorandum, *Accounting for Income Taxes*. The board will hold a public hearing on this subject on April 23-25 in New York, using the discussion memorandum as a basis.

## **AICPA Member Admonished**

(Ed. Note: As required under the AICPA bylaws, the following notice is printed in the Letter, the Institute's publication of record.)

At a hearing by a panel of Regional Trial Board VIII, in Little Rock, Arkansas, on December 13, 1983, Bobby D. Crosthwait of Oklahoma City, Oklahoma, was found guilty of violating the Institute's bylaws by failing to cooperate with the professional ethics division of the AICPA in its investigation of a complaint against him.

The panel voted to admonish Mr. Crosthwait regarding the obligation of members to cooperate with Institute ethics division investigations.

The respondent, who was present at the hearing, did not request a review of the decision which, therefore, became effective on January 12, 1984.

## **AICPA Insurance Trust Passes \$15 Billion Mark**

Life insurance in force under the CPA Plan and Group Insurance Plan rose by more than \$2 billion in 1983 bringing total coverage in force to more than \$15 billion. Only some 4 percent of the life insurance companies in the U.S. have more volume in force according to leading industry publications.

The maximum amounts of life insurance available are \$300,000 under the CPA Plan (for individual CPAs) and \$150,000 in the Group Insurance Plan (for public accounting firms).

Invitations and descriptive literature concerning the CPA Plan were mailed recently to AICPA members who are also members of one of the 52 sponsoring societies. Any such Institute member who didn't receive the brochures or who wishes additional information should write or call the Plan Agent: Rollins Burdick Hunter Co., 605 Third Avenue, New York, New York 10158 (Telephone 800/223-7473—in New York call collect 212/661-9000 extension series 406).

Recently, Paul J. Reilly of New York became the 100,000th CPA to secure life insurance coverage under the CPA Plan.

## **Postage Reminder to Letter Readers**

AICPA members who would like to start receiving the Letter by first-class mail should send their checks for \$6.50 to the Institute's circulation department as soon as possible. This will assure them of first-class mail delivery for the period from March 1, 1984, through February 28, 1985. Otherwise, their copies will be sent at the usual lower-class rate. Those who had previously elected to take advantage of this service will continue to be billed accordingly.

## **AICPA Conferences Set**

**National Tax Education** — The 1984 National Tax Education Program will be held June 17-July 28 at the University of Illinois campus in Urbana. Divided into five one-week sections, the program offers comprehensive instruction in various aspects of federal taxation and is aimed at varying levels of tax training.

- ☐ **Basic Level I**—June 17-23—deals with tax research, responsibilities in tax practice, practice before the IRS and special problems in individual tax returns.
- ☐ **Basic Level II**—June 24-30—deals primarily with corporate taxation and income taxation of property transactions.
- ☐ **Intermediate Level III**—July 8-14—deals with estate and gift taxes, taxation of estates and trusts, employer-employee relations and closely held corporations.
- ☐ **Intermediate Level IV**—July 15-21—deals with Subchapter C, consolidated tax returns and partnerships.
- ☐ **Advanced Level V**—July 22-28—deals with 1984 tax update, tax aspects of financial planning and advanced corporate taxation.

Tuition is \$810 for one week; \$1,520 for two weeks.

**MAS Training**—The National MAS Training Program will present a one-week program this June for practitioners wishing to expand and refine their consulting skills. Sponsored jointly by Ohio State University at Columbus and the AICPA, the program, *Development of Consulting Skills*, to be held on campus on June 11-15, covers all consulting skills from preliminary survey through final report presentation. Registration is \$925.

For further information, contact the CPE marketing department (212/575-6643).

## **Recent AICPA Publications**

**Codification of Statements on Auditing Standards Nos. 1-47**—This volume codifies all SASs in effect as of January 1, 1984. Auditing interpretations and other reference materials are included. Price is \$13.50; \$10.80 to members (Product no. 058957).

**Report of the Practice Analysis Task Force**—This study is based on a survey of the membership which questioned in depth the work activities performed by CPAs in public practice. Price is \$15; \$12 to members (Product no. 874514).

**MAS Small Business Consulting Practice Aid No. 3: Assisting Clients in Maximizing Profits: A Diagnostic Approach**—The third in a new series, this practice aid describes techniques that can aid practitioners to improve a small business client's financial activities. Price is \$5; \$4 to members (Product no. 055268).

**MAS Technical Consulting Practice Aid No. 4: EDP Engagement: Software Package Evaluation and Selection**—The fourth in a series, this practice aid is aimed at helping practitioners to evaluate and select software packages for clients after hardware decisions have been made. Price is \$5; \$4 to members (Product no. 055056).

All publications are available from the AICPA order department. If net total is under \$10, add postage and handling charge of \$2 (the charge does not apply to gratis items).

### **AICPA PUBLIC MEETING NOTICE**

**Accounting Standards**—The accounting standards executive committee will hold an open meeting on March 20-22 at the Beverly Hilton in Los Angeles starting at 8:30 a.m. each day. The agenda has not been set but will be reported by the meetings information telephone service at 212/575-5694.

The next scheduled meeting of AcSEC is May 2-4 in New York.

## Washington Briefs

**ASR 115 Rescinded**—At its February 15 open meeting the SEC rescinded ASR 115 which had required financially troubled corporations to resolve their auditors' reservations about immediate financial troubles before they could register stock offerings. Financial statements will continue to be considered defective if they are improperly prepared on the assumption that the registrant is a financially "going concern."

Also arising from the meeting were proposals to expand interim segment disclosure requirements. Comments are requested by May 15.

**A New CASB?**—The Department of Defense recently proposed creating a new Cost Accounting Standards Board to be charged with interpreting and modifying existing accounting cost standards, where appropriate. The new board would replace the old CASB which was phased out when funding was halted in 1981.

**Higher Spousal IRA Contributions Proposed**—The Reagan Administration has proposed an increase in the IRA limit to \$4,000 for a couple with one working spouse—from the current \$2,250—in order to equalize treatment of nonworking and working spouses. The proposal is included in the proposed fiscal 1985 budget.

**Hearing Set on Tax Shelters**—The House Ways and Means Committee slated a two-day public hearing on February 22 and 28 on proposals by the Administration and others dealing with tax shelters, accounting abuses and corporate and securities reform. The committee said the testimony will mainly focus on numerous proposals contained in the President's fiscal year 1985 budget. Albert B. Ellentuck, chairman of the AICPA's federal taxation executive committee, will testify on behalf of the Institute.

**Penalty Hiked for Frivolous Delays**—The Tax Court, for the first time, recently exercised the TEFRA-granted right to award to the U.S. higher damages against taxpayers instituting proceedings primarily for delay, presenting frivolous arguments. The Court assessed \$2,500 in damages against a taxpayer making his second appearance before it to argue that wages are not includable in gross income, after an earlier court decision had notified him that his claim was groundless.

**List of Tax-Exempt Groups Available**—A cumulative list of charitable and other tax-exempt organizations under sec. 170(c) of the Internal Revenue Code may be obtained for \$30 from the Government Printing Office, Washington, D.C. 20402 (202/783-3238). Recently revised and issued by the IRS, it contains more than 1,000 pages of names and addresses of tax-exempt groups.

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## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036

Second-class postage paid at New York, N.Y.

March 12, 1984  
Vol. 64 No. 5

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CERTIFIED PUBLIC ACCOUNTANT

# The CPA Letter

121 AVENUE OF THE AMERICAS  
NEW YORK, N.Y. 10036

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## A Semimonthly News Report Published by the AICPA

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### AICPA Testifies on Tax Proposals

The House Ways and Means Committee held a two-day hearing on February 22 and 28 on proposals dealing with tax shelters, accounting issues and corporate and securities reform. It considered numerous proposals contained in the President's fiscal year 1985 budget.

Testifying for the AICPA, Albert B. Ellentuck, chairman of the federal taxation executive committee, said, "We believe careful distinctions should be made in any legislation to curb abusive tax shelters so that legitimate business transactions are not impacted." He noted particularly that the application of limitations directed at tax shelters to all partnerships without qualification "will unintentionally and adversely affect many operating, commercial and business partnerships in their legitimate transactions."

Specifically, Ellentuck reiterated the AICPA's longstanding opposition to the IRS's rule on Lifo conformity, under which a company must use the Lifo method for financial reporting purposes if it is used for tax purposes.

Corporate tax reform should be the topic of separate legislation rather than a series of piecemeal adjustments to Subchapter C—the code section on taxation of regular corporations. "The piecemeal approach cannot deal with the complex interactions of various aspects of corporate taxation, without leading to technical problems, unintended results and necessary corrective legislation," Ellentuck concluded.

### SEC Oversight Hearing Held

An oversight hearing was held on February 23 on the activities and policies of the SEC. Representative Timothy E. Wirth (D-Colo.) chairman of the House Energy and Commerce Subcommittee on Telecommunications, Consumer Protection and Finance, focused on the Subcommittee's oversight responsibilities as to what the commission is doing, "or is failing to do," in certain areas.

In the accounting area, Wirth asked: "Against a backdrop of increased corporate 'cooked books' and creative accounting techniques, is it wise for the commission to take significant steps to deregulate the accounting profession . . .?"

Rep. John D. Dingell (D-Mich.), chairman of the House energy committee's oversight and investigations subcommittee, joined the hearing and questioned SEC actions in several areas. In a prepared statement, Dingell said: "As you know, the oversight subcommittee has announced commencement of an investigation of the accounting profession and the SEC's oversight of accounting standards."

### Software Costs Paper Sent to FASB

The Institute's accounting standards executive committee recently sent an issues paper entitled *Accounting for Costs of Software for Sale or Lease* to the Financial Accounting Standards Board. The paper addresses such issues as

- ☐ Whether all costs incurred to produce computer software for sale or lease should be charged to research and development expenses as incurred.
- ☐ Whether a prototype is necessary to establish feasibility for software products.
- ☐ The circumstances under which costs to construct computer software should be capitalized.

Copies of the issues paper (Product no. 830395) are available at \$2.50 each from the AICPA order department.

## **Recent AICPA Publications**

*CPA Examination Questions and Answers Indexed to Content Specification Outlines 1979-1983:* A new four-volume series of study aids, these publications are aimed to help CPA candidates prepare for the CPA examination. The series covers the 10 examinations from May 1979 through November 1983. Each volume deals with a major section of the examination: *Accounting Practice* (Product no. 079116) \$20, \$16 to members; *Accounting Theory* (Product no. 079101) \$10, \$8 to members; *Auditing* (Product no. 079120) \$10, \$8 to members; and *Business Law* (Product no. 079135) \$13.50, \$10.80 to members. The complete set (Product no. 079140) is \$42.50; \$34 to members; educational discounts apply.

*Introduction to Microcomputer Processing Capabilities*—A management advisory services special report, this publication is geared to familiarize practitioners with the capabilities of the microcomputer and to enhance their ability to provide audit, tax and MAS. Price is \$4; \$3.20 to members (Product no. 048531).

*Financial Report Survey 28: Illustrations of Accounting for Enterprises in Unusual Circumstances and Reporting of Them by Independent Accountants*—This survey deals with accounting and reporting problems of business entities operating under unusual circumstances, such as those being reorganized under bankruptcy or in the process of being liquidated. Price is \$9.50; \$7.60 to members (Product no. 037876).

All publications are available from the AICPA order department. If net total is under \$10, add postage and handling charge of \$2.

The latest program in the CPA Video Journal series is no. 32, *Self-Regulation Update*, which deals with the role quality control plays in maintaining the profession's integrity. For information, contact Teresa Zimmerer at the AICPA.

## **Small Firm and MAP Conferences Set**

*Small Firm*—The Institute's management of an accounting practice committee will hold its fourth annual conference for the smaller CPA firms twice this year—August 2-3 in San Francisco and November 8-9 in Washington, D.C.—with the same speakers and topics. The program focuses on the interests and problems of firms that practice with limited staff and will probably appeal most to sole practitioners and firms with two to three partners. Topics include individual and firm goalsetting, marketing, controlling costs and increasing fees, and micro and minicomputers in small firms. A brochure will be mailed to all members in April.

*MAP*—The 1984 National Practice Management Conferences have been set for this summer and fall. Organized and presented by the Institute's MAP committee, the series of practice management conferences includes:

- ☐ *Practice Growth and Development* on July 19-20 in Chicago deals with topics such as MAS' future, marketing tax services and designing client newsletters and brochures.
- ☐ *Firm Management and Administration* in Cambridge, Mass., on September 20-21 will focus on areas such as methods to increase profits, client perceptions and funded retirement plans.
- ☐ *Practice Management* in Las Vegas on October 31-November 2 deals with strategic marketing, developing partners in the 1980's, mergers and acquisitions and management's view of microcomputers.

Brochures will be mailed in April to all partners and sole practitioners.

For information on both conferences, contact the AICPA meetings department.

### **AICPA Member Admonished**

On January 4, 1984, a hearing panel of the Joint Trial Board Division's Regional Trial Board IX considered charges by the Institute's professional ethics division that Arthur L. Burke of Leesburg, Florida, violated the auditing standards rule of the codes of professional ethics of the Florida Institute of CPAs and the AICPA in connection with his examination and report on the financial statements of a municipality for the year ended September 28, 1979. The panel found Mr. Burke guilty as charged and decided that, in view of the delay in the case being brought for a hearing, it was limiting its sanction to an admonishment.

Mr. Burke was not present at the hearing but has submitted a letter responding to the charges that were brought against him. He did not request a review of the decision which therefore became effective on February 3, 1984.

### **SEC Accounting Fellows Named; Staff Positions Open**

The Securities and Exchange Commission recently named Robert K. Eskew to serve as the academic fellow in the office of the chief accountant for a one-year term beginning August 1. Dr. Eskew is an associate professor of management at Purdue University, Lafayette, Indiana.

Also, Leland E. Gaul of St. Louis and Robert J. Kueppers of New York City will serve as professional accounting fellows for two-year terms starting this summer. Gaul is an audit manager with Ernst & Whinney while Kueppers is an audit manager with Deloitte Haskins & Sells.

They will all work directly with Clarence Sampson, SEC chief accountant, on development of rule proposals, liaison with professional accounting standard-setting bodies and consultation with registrants.

The SEC's division of corporation finance is seeking CPA applicants for staff accountant positions at the GS-12(\$30,402) and GS-13(\$36,162) levels through July. Duties include reviewing Form 10-K's and registration statements for compliance with SEC disclosure requirements. For further information, contact Ms. Patterson, Office of Personnel, SEC, 450 Fifth St., N.W., Washington, D.C. 20549.

### **Supreme Court Supports IRS on Interest-Free Loans**

The U.S. Supreme Court recently ruled that an interest-free loan from one family member to another is a taxable gift. In the 7-2 decision (*Dickman v. Commissioner*, no. 82-1041), Chief Justice Warren Burger wrote that interest-free demand loans "resulted in taxable gifts of the reasonable value of the use of money lent." The value of the gift would be the amount of interest not charged (the Court did not specify the rate) rather than the principal, which presumably would be repaid.

Justices Powell and Rehnquist dissented, saying that Congress, not the IRS, should decide the tax consequences of such loans.

The decision supports the IRS—which has maintained since 1966 that the value of the use of interest-free funds was a taxable gift—despite several lower court rulings to the contrary.

Separately, the Court agreed to rule on the constitutionality of the 1982 federal law requiring that bonds issued by state and local governments be registered in order to maintain their tax-exempt status.

### **NOTICE OF AICPA PUBLIC MEETING**

**Professional Ethics**—The professional ethics executive committee will hold an open meeting on March 30 at the Hotel Westcourt in Phoenix, starting at 9:30 a.m. It will consider the following proposed new pronouncements for publication: Interpretation 102-1, *Knowing Misrepresentation in Financial Records*, and Interpretation 501-4, *Gross Negligence in the Preparation of Financial Statements or Records*. Changes will be reported by the meetings telephone information service at 212/575-5694.



## Washington Briefs

**Regulations Proposed on ACRS**—Regulations implementing the accelerated cost recovery system (ACRS) for capital assets that Congress approved in the 1981 Economic Recovery Tax Act were proposed last month by the IRS. The proposed rules, which deal with the provisions of both ERTA and TEFRA, generally apply to eligible property placed in service after December 31, 1980. The IRS advised taxpayers who have filed a return without claiming any or all allowable ACRS deductions to file an amended return. The IRS set a hearing on May 21-23 on the proposal.

**Warning on Flexible Compensation Plans**—In IR-84-22, the IRS advised that certain types of employer “reimbursement” plans purporting to allow employees to pay certain personal expenses—such as medical care and legal services—with pre-tax dollars are without substance. Such reimbursements are considered part of the employee’s gross income.

**Redefining Small Business**—Revising a definition unchanged since 1975, the Small Business Administration has determined, effective March 12, that “accounting, auditing and bookkeeping services” will be considered “small businesses” if their annual gross revenues don’t exceed \$4 million. The 1975 limit was \$2 million.

**Single Audit Legislation Introduced**—H.R. 4821, a bill “to establish uniform audit requirements for state and local governments receiving federal financial assistance,” was introduced last month. The bill would require each state and local government receiving \$100,000 or more annually in federal aid to obtain an annual, independent, organization-wide audit of its financial operations.

**SEC and Financial Reporting Conference**—The University of Southern California School of Accounting will hold its third annual one-day conference on SEC and financial reporting on May 11 in Los Angeles. Entitled the “SEC and Financial Reporting Institute,” the program will provide a forum for business executives and practitioners as well as policy setters from the SEC and the private sector. Keynote speaker is Senator Jake Garn (R-Utah), chairman of the Senate Committee on Banking, Housing and Urban Affairs. For information, contact Professor Jerry L. Arnold at the University, Los Angeles, California 90089-1421 (213/743-8789).

**Regulations on Practice Before IRS Adopted**—New regulations governing the practice of attorneys, CPAs, enrolled agents and enrolled actuaries before the IRS were recently adopted. Copies of the new regulations are available from the AICPA’s Washington office (202/872-8190 extension 47).

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## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036

Second-class postage paid at New York, N.Y.

March 26, 1984  
Vol. 64 No. 6

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# The CPA Letter

A Semimonthly News Report Published by the AICPA

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## **AICPA Officers and Directors Nominated for 1984-85**

At its meeting earlier this month, the AICPA's committee on nominations took the following actions for presentation to council in Atlanta on October 13:

- ☐ Confirmed the nomination of Ray J. Groves, Ohio, to be chairman of the board of the Institute for 1984-85.
- ☐ Nominated the following officers and directors:
  - Vice-Chairman—Herman J. Lowe, Louisiana.
  - Vice-Presidents—Paula H. J. Cholmondeley, New Jersey; Merle S. Elliott Maryland; Charles G. Steele, New York.
  - Treasurer—Don J. Summa, New Jersey.
  - Members of the board of directors (for three years). Robert C. Ellvson, Florida; Barry B. Findley, Arkansas; Alan B. Levenson, District of Columbia; Mahlon Rubin, Missouri.

The complete report of the committee on nominations will appear in the next issue of the *Letter* including nominations for members of council and the national review board, and the procedures for independent nominations.

## **FASB Adds Software Costs to Agenda . . .**

The Financial Accounting Standards Board, on March 7, agreed to add to its technical agenda a project on the matters addressed in the Institute's issues paper, *Accounting for Costs of Software for Sale or Lease*, which was sent to the board earlier this month (see March 12 *Letter*). According to Gregg Ray, FASB project manager, the board will discuss a proposed document in depth at a meeting on March 28. Pending approval, it is expected to be issued shortly thereafter.

Last August, the Securities and Exchange Commission barred any companies from capitalizing research and development costs for computer software to be sold or leased, unless those companies had both capitalized the costs and disclosed that policy by last April 14.

## **. . . And Sets More Meetings on Income Tax Accounting**

In an effort to obtain views of preparers, users and CPAs associated with small company financial statements, the FASB will hold a series of meetings in May on income tax accounting. The board issued a discussion memorandum in August, 1983, describing the issues which will serve as a basis for a public hearing in New York on April 23-25.

The board is trying to obtain views from representatives of small companies and small CPA firms, said E. Raymond Simpson, FASB project manager, "by holding meetings around the country, which may be easier for them to attend than the general public hearing."

The meetings are set for May 3 at the Hyatt Regency at Chicago's O'Hare Airport; May 15 at the Holiday Inn South at the Dallas-Fort Worth Airport; and May 22 at the San Francisco Hilton and Tower.

Those wishing to attend should register with the FASB by April 20. For further information, contact Patricia Kelly, FASB, High Ridge Park, P.O. Box 3821, Stamford, Conn. 06905-0821.

In another area, Glenn V. Schultz was recently named executive director of the Financial Accounting Foundation, replacing Paul A. Pacter, who resigned last month to become finance commissioner of the City of Stamford.

## **Committees to Examine AICPA Role**

Two special committees have been appointed recently by Board Chairman B. Z. Lee. Their recommendations may lead to basic changes in the Institute's functions and policies.

The first meeting of the new special committee on the mission of the AICPA, headed by John C. Burton of Columbia University, will be held on May 22. Composed of a broad cross section of the membership, the committee will study the objectives of the AICPA as they relate to all members, whether in public practice, industry, government or education. Among other matters, it will consider if the Institute's traditional focus on public practitioners continues to be appropriate.

Other committee members are Jerrell A. Atkinson, New Mexico; Jarman Bass, Texas; Barry B. Findley, Arkansas; Walter S. Holmes, Jr., New York; Irving B. Kroll, California; and Ulyesse Le Grange, Texas.

Also, Robert Mednick, Illinois; John R. Meinert, Illinois; Paula C. O'Connor, Washington; Mahlon Rubin, Missouri; John T. Schiffman, New Hampshire; and James E. Seitz, New York. Theodore J. Flynn, executive director of the Massachusetts Society of CPAs, serves as a consultant member.

Former AICPA Chairman George D. Anderson, Montana, is chairman of a special committee to evaluate the relevancy of present ethical standards to professionalism in the light of a changing economic, social, legal and regulatory climate. It will consider and make recommendations on the role of the Institute in the process of establishing standards of professional conduct.

During its three meetings, the committee has reviewed considerable material dealing with the ethics of a number of U.S. and overseas professions. It is undertaking to identify the expectations of professionalism by the public, CPAs and users of CPA services.

In addition to Mr. Anderson, the following are members of the committee: Robert L. Bunting, Washington; Joseph P. Cummings, Connecticut; James Don Edwards, Georgia; Robert C. Ellyson, Florida; Francis A. Humphries, South Carolina; Richard J. Kasten, Ohio; and Robert A. Kleckner, Illinois.

Also, Herman J. Lowe, Louisiana; Archibald E. MacKay, Connecticut; William L. Raby, Arizona; Frank S. Sato, District of Columbia and John P. Thomas, Florida. James R. Kurtz, executive director of the California Society of CPAs, Ralph Saul of the Cigna Corporation, New York, and Kathryn D. Wriston, New York are serving as consultant members.

## **Conference on Federal Assistance Programs Set**

The 1984 AICPA National Conference on Auditing Federal Assistance Programs will be held June 3-5 at the Capital Hilton Hotel in Washington, D.C. The program will focus on the single audit concept and other current developments affecting federally assisted programs. The keynote speaker is Charles A. Bowsher, U. S. comptroller general. Other speakers include David L. Landsittel, chairman of the AICPA's auditing standards board, and Ms. Arlene Triplett, associate director for management of the Office of Management and Budget.

Workshops and concurrent sessions will deal with topics such as the single audit engagement, federal agencies administering capital projects and social service programs and implementing the guidelines in the OMB's Circular A-110 for schools, hospitals and nonprofit groups.

For further information, contact the AICPA meetings department.

### **Membership in AICPA Tax Division Sought**

Applications for voluntary membership in the AICPA tax division are now being accepted. A brochure explaining the program will be mailed to all Institute members next month. The establishment of the division, which is open to all AICPA members, was approved by council at its meeting last October.

The division's program has been established for CPAs who have a special interest in taxes and will be part of the existing AICPA structure. Among the membership benefits are

- ☐ Attendance at the division's semiannual meetings and subcommittee meetings of special interest. Agendas for meetings of the federal taxation executive committee and highlights of past meetings may be obtained.
- ☐ A subscription to *The Tax Adviser* (current subscribers will receive a refund for the balance of their subscriptions), the division's newsletter and other publications as well as copies of division position papers.

As a division member, agendas and minutes covering meetings of a subcommittee of your choice will be available as well as an opportunity to observe subcommittee meetings.

Annual membership dues are \$70 and cover the period August 1 through July 31—corresponding with the AICPA fiscal year. Those joining before August 1 will receive free membership until then. Any Institute member may participate in the division's semiannual meeting in Washington, D.C., on May 3-4, but should call the AICPA at 202/872-8190, ext. 33, by April 30.

### **Prices Cut for NAARS Service**

In a major breakthrough for subscribers to the Institute's National Automated Accounting Research System (NAARS), Mead Data Central recently announced a new pricing system for its on-line information systems. With this new pricing, the cost of computer time will drop dramatically and search charges will be fixed and dependent on the value of the information in the files searched. As of April 1, the price of each search will be based on the value and amount of data in the file or group of files being accessed.

For a brochure fully explaining the new pricing structure, contact Hortense Goodman at the AICPA (212/575-6393).

### **Two AICPA Members Conditionally Expelled**

At a meeting of a hearing panel of Regional Trial Board V in Dallas, Texas, on January 17, 1984, Harvey L. Ribble and Lee Roy Brown of Dallas were charged with violating the technical standards rules of the Codes of Professional Ethics of the Texas Society of CPAs and the AICPA in connection with a client's financial statements.

Messrs. Ribble and Brown were found guilty as charged and the panel decided that they are to be expelled from membership in the Texas Society of CPAs and the AICPA on December 31, 1984, unless a peer review of their practice, satisfactory to the panel, has been completed prior to that date.

Neither respondent was present at the hearing, but they were advised in writing of the hearing panel's decision. Neither respondent requested a review of the findings and the decision therefore became effective on February 16, 1984.

### **NOTICE OF AICPA PUBLIC MEETING**

#### **Auditing Standards**

An open meeting of the auditing standards board will be held in New York in the AICPA board room on April 23-25 starting at 1:00 p.m. on the 23rd and 9:00 a.m. on subsequent days. The agenda, which has not yet been determined, will be reported by the meetings telephone information service. The number is 212/575-5694.

Future meetings are scheduled for June 5-7 in New York City and July 24-26 in Rye, New York.

## Washington Briefs

**Move to Boost Spousal IRA Contributions**—The Senate Finance Committee, on March 14, voted to gradually raise to \$4,000 annually the contribution an individual with a nonworking spouse may make to an individual retirement account. The proposed action would boost the current \$2,250 limit by \$500 every two years starting in 1985 until the total reached \$4,000 in 1990.

**DCAA Initiates Accounting Fellow Program**—The Defense Contract Audit Agency (DCAA) recently began a professional accounting fellow program and is looking for candidates with a wide variety of audit experience in public accounting. The program is designed to appoint a qualified professional auditor from public accounting to the DCAA staff for one year. Contact the agency's headquarters, personnel office at 202/274-7328 for information.

**Confirmation of Revenue Entitlements Dropped**—In an effort to trim operational costs, the audit division of the Office of Revenue Sharing no longer will process requests for confirmation of revenue-sharing entitlement payments. The move was effective March 1, 1984. The division advised that alternative procedures for verifying revenues be applied (see the April *Journal of Accountancy*).

**Focus on Misleading Financial Statements**—In a recent speech, SEC Commissioner James C. Treadway, Jr., focused on what the commission's response this year will be towards activities undermining the integrity of financial statements. "The market cannot tolerate it; the corporate community should not tolerate it; and the commission will not tolerate it," he warned.

**New CASB Proposal Draws Fire**—Witnesses at a March 7 hearing before a House banking subcommittee strongly criticized the Defense Department's proposal for a new Cost Accounting Standards Board within the DOD (see February 27 Letter), noting that this plan would "seriously impair" the independence and uniformity needed to deal with the standards. U.S. Comptroller General Charles A. Bowsher voiced support for the need for the CASB function, but not within the DOD.

**Tax Education Symposium**—The AICPA is co-sponsoring a symposium on graduate tax education for practitioners and educators at the University of Texas at Austin on May 7-8. The program will provide a dialogue in which practitioners can express their needs and educators can present an update on developments in graduate tax education. Registration fee is \$100. Call the AICPA at 202/872-8190, ext. 36, for program and registration information.

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## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036

Second-class postage paid at New York, N.Y.

April 9, 1984  
Vol. 64 No. 7

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NEW YORK, N. Y. 10036

# The CPA Letter

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**A Semimonthly News Report Published by the AICPA**

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**Supreme Court  
Decision on Tax  
Accrual Workpapers  
Brings Speedy  
Response**

The Internal Revenue Service has announced that it does not plan to change its current policy for requesting accountants' tax accrual workpapers because of a recent Supreme Court decision. Thus, existing restraints for requesting tax accrual workpapers will not be relaxed, nor are changes in the *Internal Revenue Manual* contemplated.

The IRS announcement followed speculation about the possible impact of the March 21 decision, *United States v. Arthur Young & Company*, which upheld the IRS position that the tax accrual workpapers in question were relevant to an IRS examination and thus subject to review by the IRS. In reversing a lower court decision on the basis that no confidential work product immunity from disclosure exists for the work that independent auditors perform for publicly owned companies, the Supreme Court expressed its satisfaction with the "administrative sensitivity" demonstrated by the Service "to the concerns expressed by the accounting profession . . ." as to this matter. IRS guidelines which remain in effect provide that the tax accrual workpapers should only be requested with the required approval of the Chief of the Examinations Division in "unusual circumstances" and "only as a collateral source for factual data" and then only after the examiner has taken "all reasonable means to secure the information from corporate officers."

AICPA President Philip B. Chenok indicated that the Institute is pleased with the IRS announcement because it recognizes the IRS' awareness of the need to maintain the traditional relationship between auditors and their clients. The Supreme Court recognized the need for open communication regarding tax accounts, noting that "responsible corporate management would not risk a qualified evaluation of a corporate taxpayer's financial posture to afford cover for questionable positions reflected in a prior tax return." The Institute has also urged the SEC to issue an interpretive release commenting on the Supreme Court decision and reiterating the importance of the integrity of the independent audit process.

AICPA Board Chairman B. Z. Lee had urged the IRS to "help alleviate any concern about a diminished environment that may arise as a result of the Supreme Court action." Earlier Lee had expressed "grave concern" over the Supreme Court decision because it "could limit the information that accountants will be able to obtain from audit clients about tax matters." He also indicated that "since the Court has not offered a judicial remedy, we may be obliged to seek legislative relief." "The IRS announcement should help allay concerns about the free and open communication between auditors and their clients," according to Chenok. "Nevertheless," he said, "we will carefully consider the potential longer term impact of the decision on the audit process and on tax practice in general."

**Recent AcSEC  
Actions**

At its March 20-22 meeting, the Institute's accounting standards executive committee approved for exposure this fall a proposed accounting and audit guide, *Audits of Agricultural Producers and Agricultural Cooperatives*.

AcSEC also approved letters of comment to the FASB on two of the board's Invitations to Comment dealing with timely financial reporting guidance and the effects of changing prices.

## **Industry's Voice Heard on Tax Accounting**

Disagreement was evident as more than 200 representatives from industry and the accounting profession met to discuss the Financial Accounting Standards Board's project on accounting for income taxes. The project, on which the board issued a discussion memorandum last August that will serve as a basis for public hearings later this month, is "one of the most highly controversial and vital problems facing the accounting profession," said Robert Shultis, executive director of the National Association of Accountants.

Sponsored by the NAA and held last month, the conference focused on issues pertaining to the deferred taxes that presently result from reporting income tax expense in a period other than when the taxes are paid. The key questions, said Lawrence Best, partner, Ernst & Whinney, are

- ☐ Should we recognize deferred taxes at all? That is, should tax expense for a period equal taxes payable for a period (the flow-through method) or should deferred taxes be required for at least some timing differences?
- ☐ Should interperiod tax allocation be applied to only some timing differences (partial allocation) or to all timing differences (comprehensive allocation)?

Robert T. Sprouse, FASB vice-chairman, focused on why the board is reconsidering the project, noting especially great concern over "the growing magnitude" of taxes deferred. The largest single factor for reconsideration, he added, was the introduction of the accelerated cost of recovery system (ACRS) in the 1981 tax act. Of the more than 400 comment letters received by the board so far, 45 percent are from rate-regulated industries, who favor the status quo, noted Sprouse.

The board will hold a public hearing on the issues April 23-25 in New York and a series of seminars next month (see March 26 *Letter*). An exposure draft is expected later this year, said Sprouse.

## **SEC Holds Meeting on International Accounting Standards**

The SEC, on March 26, held an open meeting on recent activities in developing international accounting and reporting standards, including efforts to harmonize such standards. The meeting included representatives of the International Accounting Standards Committee—Steve Elliott, IASC chairman, and Geoff Mitchell, IASC secretary general—as well as Donald J. Kirk, FASB chairman, and Institute representatives: AICPA president Philip B. Chenok; Ralph Harris, AICPA representative on the IASC board; and Paul Rosenfield, AICPA director of accounting standards.

Mr. Chenok explained the AICPA's role as a member body of IASC and the relationship between IASC standards and FASB standards "insofar as they relate to the responsibilities of AICPA members." He noted that the effort at harmonizing international standards undertaken by the IASC is long-range and that the Institute "is not dismayed by those difficulties inherent in developing standards for application on a worldwide basis. We believe the IASC effort is worthwhile and that the result, over time, will be improved financial reporting on an international scale." He urged the commission "to carefully consider the benefits that can come from an effective IASC and to continue to support its work."

In other IASC actions, the committee, at its meeting last month, agreed to publish a Statement of International Accounting Standards entitled *Related Party Disclosures*, to be issued later this year. Also, at its meeting, the IASC elected John Kirkpatrick, representing the United Kingdom and Ireland, as chairman-designate.

Special Supplement, the CPA Letter, April 9, 1984

## REPORT OF THE NOMINATIONS COMMITTEE

To: Members of the American Institute of Certified Public Accountants

Pursuant to Article VI, Section 6.1.6 and 3.3 of the bylaws, the following report of the Nominations Committee is submitted.

Donald J. Schneeman, Secretary  
New York, NY, March 6, 1984

The Nominations Committee hereby nominates the following Officers, Members of the Board of Directors, Members of Council-at-Large, elected members of Council and the National Review Board.

**For Officers:** (To serve from the 1984 Annual Meeting to the 1985 Annual Meeting or until their successors shall be elected.)

**Chairman of the Board:** Ray J. Groves, Ohio

**Vice Chairman of the Board:** Herman J. Lowe, Louisiana

**Vice-Presidents:** Paula H. J. Cholmondeley, New Jersey

Merle S. Elliott, Maryland

Charles G. Steele, New York

**Treasurer:** Don J. Summa, New Jersey

**For Members of the Board of Directors:** (Three years)

Robert C. Ellyson, Florida

Barry B. Findley, Arkansas

Alan B. Levenson, District of Columbia

Mahlon Rubin, Missouri

**For Council Members-at-Large:** (Three years)

Robert L. Bunting, Washington

John L. Fox, New York

Harry M. Linowes, District of Columbia

William L. Raby, Arizona

K. Fred Skousen, Utah

Robert D. Thorne, Illinois

Jack G. Wahlig, Iowa

(One year — to fill vacancies created by nomination of Paula H. J. Cholmondeley as Vice-President and Mahlon Rubin as member of the Board of Directors):

Ulyesse Le Grange, Texas

J. Fred Kubik, Kansas

**For Elected Members of Council:** (Three years)

Alabama — Bryan M. Hassler

Arizona — James D. Beaton

Barton P. Thompson

California — Gordon E. Brooks

Shirley J. Garcia

Kenneth H. Lever

Gary L. Schaugard

Janice I. Vincent

Colorado — Eugene M. Salkeld

Connecticut — Frank C. Frago

Florida — Joseph Curtis Hyers

John Perry Thomas

Georgia — J. Allen Poole

Illinois — Eugene L. Delves

John R. Meinert

Carmen R. Milano

Arthur H. Morrison

Indiana — R. Lawrence Drees

Iowa — George A. Olsen

Kansas — Joseph G. Trindle

Kentucky — David L. Chervenak

Louisiana — Jake L. Netterville

Maryland — C. Brooks Hubbert

Massachusetts — William C. Carpenter

Michigan — Harold Dubrowsky

Missouri — John D. Huelster

New Jersey — Lawrence R. Cinquegrana

Paul W. Ruopp

New York — Steven N. Fischer

Robert L. May

North Carolina — J. D. Woolard, Jr.

Ohio — George E. Brockman

Pennsylvania — George L. Bernstein

John S. Ross, Jr.

Rhode Island — Martin I. Dittelman

Tennessee — Truman W. Brooks

Texas — Don M. Lyda

Jimmie Lee Mason

Ronnie Rudd

Virginia — Julian D. Berlin, Jr.

Washington — John F. Clearman

**Members of the National Review Board:** (Three years)

Mason L. Backus, Texas

Bernard Barnett, New York

John A. Favret, Ohio

Robert B. Geis, Colorado

The Committee will nominate the above Officers, Members of the Board of Directors, Members of Council-at-Large and National Review Board Members at the Council Meeting on Saturday, October 13, 1984 in Atlanta, Georgia. No nominations from the floor will be recognized. However, independent nominations may be made by any twenty members of Council if filed with the Secretary at least four months prior to the Annual Meeting of the Institute which is to be held in Atlanta, Georgia, beginning October 14, 1984.

Pursuant to the bylaws, balloting for directly elected Council members by members in any state where vacancies shall arise will occur only if a contest for one or more seats develop as a result of submission of independent nominations to the Secretary by any twenty Institute members in the state at least four months prior to October 13, 1984. In the absence of any contest, all Council nominations will be declared elected by the Secretary and will assume office as Members at the Council Meeting on October 13, 1984.

Respectfully submitted:

Nominations Committee

Rholan E. Larson, Minnesota,

Chairman

William T. Diss, Colorado

John L. Fox, New York

Clifford E. Graese, New York

Charles Kaiser, Jr., Texas

Kenneth H. Lever, California

Harry M. Linowes, District of Columbia

Richard F. Martin, Ohio

Jake L. Netterville, Louisiana

Donald H. Skadden, Michigan

Sandra A. Suran, Oregon



### **ASB to Ballot on Three Documents**

The auditing standards board has agreed to ballot on the following:

- ☐ An exposure draft of a proposed standard on financial forecasts and financial projections. The standard would provide guidance on the procedures accountants should perform, and how they should report, when consenting to the use of their names in conjunction with prospective financial statements that are not restricted to internal use.
- ☐ A final SAS entitled *The Effects of Computer Processing on the Examination of Financial Statements*. It would supersede SAS no. 3, *The Effects of EDP on the Auditor's Study and Evaluation of Internal Control*. The SAS is primarily designed to integrate guidance on the effects of computer processing on audits of financial statements into existing SASs, because auditors should consider methods of data processing, along with other significant factors.
- ☐ An exposure draft of an SAS on *Reporting on Pro Forma Financial Information in SEC Filings*.

In other matters, the exposure period for comments on its proposed guide on prospective financial statements will be extended past the current May 4, 1984 deadline. The extension would allow members to consider and comment on the guidance included in both the proposed guide and the proposed authoritative standard currently being balloted on for exposure. Further information on the deadline will be in a forthcoming Letter.

### **Recent AICPA Publications**

The Institute will soon mail its 1984-1985 General CPE Catalog to practice units and to individual members who request a free copy. The catalog lists seminars, video, self-study and conferences. Those who had in the past requested the catalog will automatically receive this year's edition.

In addition, separate catalogs for self-study/video and in-house will be available later this month. Free copies (please specify which catalog) may be obtained by writing to the Institute's CPE marketing department.

The Institute recently prepared a booklet for practitioners planning public relations programs. It includes procedures for arranging media interviews, planning special events and describes various reference sources available from the Institute's public relations division. Entitled *Public Relations Guide for CPAs* (Product no. 889632), it is available at \$4.50; \$3.60 to members from the AICPA order department (if net total is under \$10, add postage and handling charge of \$2).

The Institute's minority recruitment and equal opportunity committee recently issued its surveys of minority employment and placement of accounting graduates from the traditional black and minority colleges and universities for the spring of 1983. A list of 1983 scholarship award winners is also included. Copies of the report are available from Sharon Donahue at the AICPA (212/575-7641).

### **Regional Council Discussions Preview Spring Meeting**

Institute Board Chairman B.Z. Lee and President Philip B. Chenok have completed conducting six regional meetings of members of Council. The meetings, which are held annually prior to the Spring Council meeting, permit in-depth discussion by small groups on matters of broad concern to the profession and on issues that will be dealt with at the meeting of the full Council in May. Among the issues discussed was a proposal to amend rule 302, which presently bans all contingent fees. The proposed amendment would prohibit banning contingent fees only with respect to independence-related engagements.

Also discussed was a proposal to amend the rule which bans acceptance of commissions to permit such payments in certain limited circumstances.

Members of Council also received a report on the effect of the Joint Ethics Enforcement Program and discussed a recommendation of the Colorado Society of CPAs that the Institute recognize specialization by developing a program of accreditation.

## **FASB Update**

The Financial Accounting Standards Board recently issued Technical Bulletin 84-1, which gives guidance on how a company should account for stock issued to acquire the results of a research and development arrangement. "Frequently, companies organize limited partnerships to transfer some or all of the risks, costs and tax benefits of research and development to investors," said Keith Wishon, board practice fellow. "If the research activities are successful, the sponsoring company usually has the right to acquire the research results." The bulletin, *Accounting for Stock Issued to Acquire the Results of a Research and Development Arrangement*, holds that, if the sponsoring company issues stock to acquire those results, the stock should be recorded at its fair value as of the date the research results are acquired.

In other board actions, two items have been added to its technical agenda:

- ☐ Reconsideration of the issues addressed by APB Opinion no. 25 on accounting for stock issued to employees. The board also decided to issue an exposure draft of an interpretation of Opinion no. 25 to deal with junior stock plans, rather than proceed with a technical bulletin on this subject. The proposed interpretation is expected to be issued later this month.
- ☐ A project to consider accounting for the fees and costs associated with originating and acquiring loans.

The board also decided not to add accounting for collateralized mortgage obligations (CMOs) and similar instruments to its agenda at this time, but directed the FASB staff to prepare an analysis of the scope of a possible future project that would address accounting and reporting for all secured borrowings.

For further information, contact the FASB, Order Department, High Ridge Park, Stamford, Conn. 06905.

## **NOTICE OF AICPA PUBLIC MEETINGS**

### **Accounting and Review Services**

An open meeting of the accounting and review services committee will be held on April 27 in Washington, D.C., at the AICPA offices starting at 9:00 a.m. The agenda will include discussion of the committee's compilation and review research project, prospective financial information and two possible new projects on unusual reporting circumstances and compilation procedures.

The next scheduled meeting is in Orlando, Florida, on June 1.

### **Accounting Standards**

The accounting standards executive committee will hold an open meeting in the AICPA boardroom, New York, on May 2-4 starting at 9:00 a.m. each day. The agenda has not been set.

The next meeting is scheduled for June 13-15 in New York City.

### **Council**

The council of the AICPA will hold an open meeting at the Boca Raton Hotel and Club in Boca Raton, Florida, on May 14-16. The sessions will start at 9:00 a.m. and terminate about 1:00 p.m. each day. The final agenda has not been determined.

### **Federal Taxation**

The federal tax executive committee will hold open meetings on May 2 and 5 in the Capital Hilton Hotel, Washington, D.C., from 9:00 a.m. to 5:00 p.m. each day. The agenda is not yet available.

The date of the next meeting is July 12-13 in Denver.

**Agendas and changes will be reported by the meetings telephone information service.  
The number is 212/575-5694.**

## Washington Briefs

**Court to Decide on Late Tax Filing**—The U.S. Supreme Court recently agreed to decide whether a taxpayer's reliance on an attorney to prepare a federal estate tax return can ever be "reasonable cause" for a late filing. The case, *U.S. v. Boyle*, No. 83-1266, is an appeal by the IRS from a ruling by a federal appeals court in Chicago. The court had ruled that the IRS erred in imposing a penalty on an Illinois taxpayer whose tax return for his mother's estate was filed three months late by a lawyer hired to represent the estate. Present federal law says that the IRS may penalize taxpayers filing late unless there is "reasonable cause" for the tardiness.

**Loss-Reserve Disclosure Rules Proposed**—The SEC has issued proposed rules that would require additional disclosures relating to the underwriting and loss-reserve experience of property-casualty insurance companies. The new rules are aimed at assisting investors to evaluate these companies' reserving practices and the effects on reported income of adjustments to reserves established in prior periods.

**Taxpayer Safeguard Bill Introduced**—A recently introduced bill (S 2400) would provide greater protections to taxpayers by establishing new requirements for levy and seizure of property. Under the bill, taxpayers would be given 30 days to pay deficiencies after notice and demand by the IRS, rather than the current 10 days. The measure would also increase the amount of taxpayer wages exempt from levy.

**AICPA Testifies on Single Audit Measure**—"The concept of annually auditing the financial statements of a recipient entity on an organization-wide basis rather than auditing individual grants is preferable." So said Thomas R. Hanley, chairman of the Institute's task force on single audit legislation, testifying at a recent House subcommittee hearing on H.R. 4821, the "Single Audit Act of 1984." Among the points raised by Hanley was support for the \$100,000 federal assistance threshold which would trigger the single financial and compliance audit of an entity. Urging consideration of the costs of audits, Hanley also suggested that the measure "clearly specify those institutions that are intended by Congress to be covered by this legislation."

**SEC to Start Pilot Program on Electronic Filings**—The SEC will soon establish a pilot branch to prepare for and then conduct its new experimental electronic filing system, known as EDGAR (Electronic Data Gathering and Retrieval), slated to begin this September. EDGAR will enable companies to make filings electronically with the commission and allow investors to access that data by home computer. The SEC recently asked for 1,000 corporate volunteers to join in EDGAR's development.

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## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036

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# The CPA Letter

**A Semimonthly News Report Published by the AICPA**

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## **PCPS Structure Committee Report to Be Issued**

The Institute will shortly issue the report of the PCPS structure committee which was formed in January 1983 to review the objectives, organizational structure and functions of the private companies practice section of the Institute's division for CPA firms. The committee was also charged with determining whether the PCPS' objectives and programs are appropriately responsive to the needs of AICPA members serving private companies.

The report, *PCPS: Achievements & Prospects*, is an evaluation of the PCPS during its first five years and presents a program to aid its future growth. Among the recommendations in the report:

- ☐ The PCPS should expand its focus to all areas of practice to help improve the quality of practice in such areas as tax and MAS.
- ☐ The PCPS' objectives should be revised, emphasizing improving the quality of services for all types of clients as the primary objective.
- ☐ All firms represented in the AICPA membership should be part of the division. More emphasis to attract more firms through a membership promotion program should be stressed.
- ☐ Peer review should be more relevant and more appropriately designed for various types of member firms. Specific recommendations are included for minimizing apprehension about peer reviews and reducing the economic burdens of such reviews for all firms.
- ☐ Member services should be greatly expanded. A committee should be established to develop new approaches on a wide range of potential services.

The committee's basic report was completed last fall and presented to the board of directors and the principal committees of the PCPS. Subsequently, the committee prepared an addendum to the report to address issues it identified as relating to the structure of the division for CPA firms. In the addendum, the committee recommends that both the PCPS and the SEC practice section of the division form a joint coordinating committee to deal with common problems.

The PCPS executive committee accepted the report and has begun implementation of several recommendations. In a letter included as an appendix to the report, W. Thomas Cooper, Jr., PCPS executive committee chairman, voiced support for the report's general conclusions and gives a progress report on the implementation of its recommendations. A member services committee has been established to study the PCPS' focus in all areas of practice in which CPA firms provide services.

Copies of the report will be mailed shortly to all practice units. Additional copies of the report will be available in early May from the AICPA order department (Product no. 029244; price to be determined).

## **Input Sought on Practice Problems**

The Institute is currently soliciting opinions from the members as to practice problems that should be examined by the auditing standards board and the accounting and review services committee. Opinions are particularly sought regarding practice problems that should be addressed in a statement on auditing standards, a statement on standards for accounting and review services or in interpretations thereof. Suggestions are also requested as to industries, or auditing considerations that need to be covered in an audit guide. Comments should be sent to the auditing standards division File 1250 by June 30.

### **AICPA Testifies on Application of Dickman Decision**

For administrative simplicity and fairness, the *Dickman* decision should not be applied retroactively. So said Albert B. Ellentuck, chairman of the Institute's tax division, in testimony before the Senate Finance Committee hearing on April 4 to discuss proposed gift tax relief legislation. On February 22, the U.S. Supreme Court ruled that an interest-free demand loan from one family member to another results in a taxable gift of the value of the money lent (*Dickman v. Commissioner*).

The *Dickman* rule, said Ellentuck, contains no limit "as to time or amount upon the obligation of taxpayers to resurrect transactions, and no limit upon the obligation of the IRS to investigate and assess." He added that the reconstruction of records as to such loans made could extend to 1932 when the gift tax was first imposed. "We must also measure for all the years involved the gifts for which no gift tax return was filed because the gifts were deemed to be de minimus (coming within the annual exclusion)," he stated.

Ellentuck urged Congress "to start fresh on the subject of interest free loans. Now, while you are considering legislation dealing with the income tax aspects of interest free loans, is the appropriate time to also set a new starting date regarding the gift tax aspects," he concluded.

In a related matter, the IRS recently said that it will administratively apply a de minimus rule in applying the *Dickman* decision on interest free demand loans. Any loan balance of \$100,000 (\$50,000 if single) or less to each recipient will be included in the annual gift tax exclusion whether or not other gifts have been made and have satisfied that exclusion.

### **AICPA-ABA Tax Roundtable Set**

The third annual IRS National Office-Tax Practitioners Technical Roundtable is slated for May 20-21 in the Capital Hilton Hotel in Washington, D.C. Sponsored jointly by the AICPA's federal tax division and the American Bar Association's section of taxation, the conference is especially designed for tax practitioners with a high degree of knowledge in the substantive areas of law to be covered. The program includes a series of workshops on areas of technical concern. Topics include partnerships, tax shelters, Subchapter C corporations and problems arising from the Subchapter S Revision Act.

For further information, contact Martha Freeman, ABA, Section of Taxation, 1800 M Street, N.W., Washington, D.C. (202/331-2230).

### **Member Required to Take Specified CPE and Quality Reviews**

At a meeting of a hearing panel of Regional Trial Board II in Portland, Oregon, on August 11, 1983, Randal L. Anderson of Enterprise, Oregon, was found guilty of violating the technical standards rule of conduct of the Institute's Code of Professional Ethics in connection with the financial statements of a client for the year ending June 30, 1978.

The panel voted that Mr. Anderson complete 40 hours of specified CPE courses in each of the next two years and that his practice undergo two separate quality reviews—one within two months of the effective date of the decision and the second within 18 months after the first review.

Mr. Anderson, who was present at the hearing, requested that the National Review Board review the decision. An ad hoc committee of the National Review Board met on March 5, 1984, and voted that his request be denied. The Regional Trial Board Hearing Panel's decision, which was stayed pending the outcome of the request for review, therefore became effective on March 5, 1984.

## Accountant Supply and Demand Study Issued

Reversing the trends of past years, accounting firms have reported a sharp drop of 16 percent in the demand for graduates with bachelor's degrees in accounting in 1982-83. While the public accounting demand for graduates with master's degrees has been substantially reduced in the last few years, the trend appears to have flattened out in 1982-83. Colleges and universities have again predicted a leveling off in the supply of accounting graduates.

These are some of the conclusions drawn from the recently published 14th annual study, *The Supply of Accounting Graduates and the Demand for Public Accounting Recruits*, conducted by the AICPA. The survey covers 693 colleges and universities and a stratified sample of 273 public accounting firms as to the supply of accounting graduates and their employment needs. Some of the specific findings of the study are

- ☐ The total number of accounting graduates will rise from 57,800 in 1982-83 to an estimated 60,100 in 1983-84, while the number of those graduates with bachelor's degrees will rise to an estimated 53,400 in 1983-84. The number of those graduates with master's degrees in accounting is expected to increase at a higher rate than those with bachelor's degrees.
- ☐ The total public accounting demand will rise 13 percent, from 14,200 in 1982-83 to an estimated 16,100 in 1983-84. Master's degree hirees are expected to rise from 2,200 in 1982-83 to 2,700 in 1983-84.
- ☐ In the peak year 1980-81, the public accounting firms hired 29 percent of the accounting graduates with bachelor's degrees. The percentage dropped to 23 percent in 1982-83 and is expected to rise to 25 percent in 1983-84. Overall, the public accounting firms expect to recruit 27 percent of the total 1983-84 graduates, including 40 percent of those with master's degrees.
- ☐ The numbers of students graduating with master's degrees in accounting and those with master's degrees in taxation are expected to rise at a considerably higher rate than those graduating with MBA's with an accounting concentration.

A copy of the report may be obtained, free of charge, by writing to the AICPA order department (Product no. G00090).

## Recent Publications

*Report on the Study of EDP-Related Fraud in the Banking and Insurance Industries.* This study, by the Institute's EDP fraud review task force, focuses on the who, what, where, when, why and how of specific EDP-related fraud cases. It is taken from surveys conducted in the banking and insurance industries. Price is \$3; \$2.40 to members (Product no. 029259).

The Institute is publishing a brochure entitled *What is Peer Review?*, describing what peer review means, the elements of quality control and how the results of peer review are communicated. Price is 1-4 copies gratis; 5 or more 10¢ each (Product no. 887162).

Both publications will be available from the AICPA order department (if net total is under \$10, add postage and handling charge of \$2; the charge does not apply to gratis items).

The Institute now has available standard confirmation inquiry forms for life insurance policies with imprinting, similar to the standard bank confirmation inquiry forms. For further information, contact the AICPA order department (Product no. 990081).

The latest program in the CPA Video Journal series is no. 33, *Applying SAS 39 for Nonstatistical Auditing*, which explains how the SAS affects the audit practice of CPAs. For further information, contact Teresa Zimmerer at the AICPA (212/575-5573).

## Washington Briefs

**House Passes Deficit-Trimming Bill**—On April 11, the House approved a three-year, \$49.2 billion tax bill aimed at reducing future federal budget deficits and raising revenues. While no general tax increase is included, the bill calls for an increase in liquor and diesel fuel taxes and closing certain tax shelter “loopholes.” Meanwhile, the Senate completed action on its finance committee bill that is similar to the House measure. A House-Senate conference on the measure is expected shortly.

**Overpayment Credits Liberalized**—The IRS recently revoked a 1983 ruling on the application of income tax overpayments against next year’s installment payments of estimated taxes. The IRS now permits the crediting of overpayments against the first installment due on or after the return was filed (Rev. Rul. 84-58).

**New Corporate Short Form Unveiled**—The IRS recently previewed a preliminary proof of a new Short-Form 1120-A, U.S. Corporation Income Tax Return. The new form is designed to be used, starting next year for the tax year 1984, by small corporations—gross receipts of \$250,000 or less and total income of \$250,000 or less—with no foreign subsidiaries and are not half-owned by foreign shareholders.

**Freeze on Financial Services Mergers Proposed**—A bill has been proposed to impose an 18-month moratorium on mergers between securities brokerage companies, insurance companies and banks and their activities. The proposal would also establish a capital markets commission to evaluate current and prospective changes in financial structure and regulation while the moratorium is in effect.

**Rules Set on Deposits to FTD**—Pension plan managers must use the federal tax deposit (FTD) system to submit income tax withheld on benefit payments, said the IRS (IR 84-48). Under TEFRA, income tax must be withheld from pensions, annuities and other deferred income unless the recipient elects not to have withholding.

**High Court to Decide Scope of IRS Summons Power**—The U.S. Supreme Court recently agreed to hear a case on what procedures the IRS must follow when summoning the records of a tax shelter promoter, including its client list (*Tiffany Fine Arts, Inc. v. U.S.*, No. 83-1007). The Court’s decision will affect the IRS’ effort to attack abusive tax shelters by obtaining client lists from promoters, particularly the procedures for obtaining so-called John Doe summonses which serve a dual purpose of obtaining the names of persons considered potential targets of investigations as well as the records of a known target.

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## **Board of Directors Meeting Highlights**

Among the actions taken by the AICPA board of directors at its April meeting:

- ☐ Decided to recommend that Council approve a mail ballot of the membership seeking to modify Rule 302—Contingent Fees so as to prohibit such fee arrangements in independence-related engagements.
- ☐ Decided not to seek a change in Rule 503—Commissions at this time. It is anticipated that the professional ethics committee will issue its previously exposed interpretations under this rule on “client” and “products and services of others.”
- ☐ Received the final report of the special committee studying the operations of the PCPS and authorized its distribution.
- ☐ Received a summary report of the special committee studying the operations of the SECPS and agreed to review the written report at the July meeting.
- ☐ Approved for distribution the report of the future issues committee.
- ☐ Confirmed the Public Oversight Board’s election of Arthur Wood to succeed John J. McCloy as its chairman.
- ☐ Received a progress report from the task force on implementation of recommendations of the Special Committee on Accounting Standards Overload.
- ☐ Approved for discussion with Council a draft of a joint AICPA/NASBA accounting statute. The board plans to decide in July whether to adopt the draft.
- ☐ Approved a program of financial assistance to PhD candidates with the expectation of reducing the shortage of PhDs on accounting faculties. In addition, the board approved the granting of a \$5,000 award to the educator selected as the “outstanding accounting teacher of the year.”

## **Progress Seen on Accounting Standards Overload**

“Although there is no quick fix to the accounting standards overload problem, the actions taken by both the FASB and the task force are helping to achieve meaningful progress.” So said former AICPA Board Chairman Rholan Larson in a report to the Institute’s board of directors last month on the activities of the AICPA’s task force on accounting standards overload.

The FASB, he reported, is restructuring its small business advisory committee and has made understanding small business concerns a major priority on every project. Board actions taken on specific troublesome standards include:

- ☐ Directing the staff to study SFAS no. 13 on accounting for leases to identify the full range of issues and possible ways to resolve those issues. Also, the staff has been asked to segment the SFAS into two volumes for lessees and lessors rewritten in less complex language.
- ☐ Making a major effort to obtain views from small businesses and their CPAs on accounting for income taxes.
- ☐ Eliminating the pro forma disclosures of APB Opinion no. 16 for business combinations of nonpublic companies.

Although the board decided not to reconsider SFAS no. 34, *Capitalization of Interest Cost*, “at this time,” Larson reported that the matter is likely to be discussed at a future date. He also expects to submit an article discussing the concept of differential measurement to the *Journal of Accountancy* to encourage discussion. Finally, he reported that AcSEC has prepared a simplified version of SFAS no. 34 for consideration by the FASB.



### **Tax Revisions Proposed at AICPA Meeting**

The IRS is conducting a nationwide opinion survey to learn what the public thinks of our tax system. If the participants in the spring meeting of AICPA's tax division on May 2 to 4 are correct, the consensus is likely to be: Let's start over.

Conferees were told Congress is convinced that people want our tax laws simplified, perhaps through adoption of a flat tax, a value-added tax or some form of tax on consumption. Ways and Means Committee minority leader Barber Conable (R.-NY) predicted that both political parties will make the flat tax part of their basic programs this year. "Lower-income taxpayers like it because they believe the rich didn't pay taxes," he said, "while the rich like it for its uniform tax rate."

Senate Finance Committee majority leader Robert Dole (R.-KS) suggested, "The flat tax is something you like to vote for while hoping that it doesn't pass."

"How much more simplification is possible," Representative Conable asked, "when 70 percent of taxpayers are already on the short form?"

Panelist Arthur Hoffman asked whether Congress isn't at fault for trying to increase taxes without actually passing a tax increase. "Inevitably this fails to raise the necessary dollars," he said, "so the word goes out, 'Let's start over.'"

Fifty members of the new Tax Division were among those who attended the Washington conference which, Executive Committee Chairman Albert Ellentuck observed, attracted top tax people from Congress, the IRS, Treasury department and the legal and accounting professions.

### **Two AICPA Members Suspended; One Retroactively**

The AICPA bylaws provide that membership in the Institute shall be suspended without a hearing should a member's certificate as a certified public accountant be suspended as a disciplinary measure by any governmental authority.

- ☐ The membership of Dennis L. Farr of Madison, Wisconsin, was suspended from October 24, 1983 to December 22, 1983 coincident with the suspension of his CPA certificate as a disciplinary measure by the Wisconsin State Board of Accountancy.
- ☐ The Institute was recently advised that the CPA license of Norman H. Cahan of Huntingdon Valley, Pennsylvania, was suspended from August 11, 1982, to December 10, 1982, for disciplinary reasons by the Pennsylvania State Board of Examiners. Accordingly, the records of the Institute will reflect that his AICPA membership was suspended for the four-month-period which ended December 10, 1982.

### **Interamerican Accounting Conference Set**

The XVI Interamerican Accounting Conference will be held August 19-23, 1985, in Miami. The registration fee is \$300 for AICPA members and \$150 for spouses. The deadline for registrations is June 1, 1985 and papers must be presented before March 31, 1985.

Also, membership application forms are now available to Institute members wishing to become associates of the Interamerican Accounting Association. Upon presentation of the completed form and payment of 1984 dues (\$100), AICPA members will receive "certified associate" certificates. Associates will receive copies of the monthly IAA newsletter (in English and Spanish) and quarterly technical journal (in Spanish), drafts of official IAA technical opinions and discount rates on IAA conferences and seminars.

For further information, contact Howard P. Keefe, IAA committee chairman, at Arthur Andersen & Co., 33 West Monroe Street, Chicago, Ill. 60603.

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The CPA Letter (ISSN 0094-792x), May 14, 1984. Published semimonthly, except July and August when monthly. Publication and editorial office: 1211 Avenue of the Americas, New York, N.Y. 10036-8775. Second-class postage paid at New York, N.Y. and at additional mailing offices. Copyright © 1984 American Institute of Certified Public Accountants, Inc. Postmaster: Send address changes to 1211 Avenue of the Americas, New York, N.Y. 10036-8775.

## **FASB Holds Hearing on Tax Accounting**

Three days of public hearings brought little consensus among more than 40 representatives from industry, academe and the accounting profession who met to discuss the Financial Accounting Standard Board's project on accounting for income taxes. The hearings, held in New York on April 23-25, focused on issues relating to the deferred taxes that presently result from reporting income tax expense in a period other than when the taxes are paid.

The FASB, said Board Chairman Donald J. Kirk, in opening the hearings, has received numerous requests to reconsider APB Opinion no. 11 since 1973. Concerns over the present accounting rules for income taxes "focus on the complexity of the present requirements and on the meaningfulness of the results of applying the requirements." Critics, however, "do not agree on what would be a better approach to accounting for income taxes," he added.

Of the more than 400 comment letters received by the board so far, about 45 percent are from rate-regulated industries, who favor the status quo. Everett B. Norbury, Jr., division manager for accounting policies at American Telephone and Telegraph, for instance, said that "we hope the board will say no—no to any change in the comprehensive tax allocation process and no to any change in the balance sheet presentation of deferred taxes."

Most of the comment letters, noted Kirk, recommended some change to the present requirements. "I must hasten to say, however, that there is considerable support for some of the present accounting requirements and particularly for comprehensive interperiod tax allocation."

## **Proposed Interpretation on Junior Stock Issued**

Companies would have to recognize compensation for junior stock plans if a proposed interpretation issued recently by the Financial Accounting Standards Board is adopted. Current accounting standards require a company to reduce its reported income for compensation resulting from stock option, award and purchase plans. Presently, companies with junior stock plans generally do not recognize compensation expense in connection with junior stock issues.

The proposed interpretation would require a company to recognize an expense for the difference between the amount paid by the employee for the junior stock and the market price of the company's regular common stock when the requirements for conversion are met.

The FASB staff had issued a proposed Technical Bulletin on this issue last December, according to FASB Practice Fellow Steven P. Johnson, but many respondents felt that the board should formally address these plans with full due process.

Comments on the proposed Interpretation, *Determining the Measurement Date for Stock Option, Purchase and Award Plans Involving Junior Stock*, are due by June 19. For further information, contact the FASB, Order Department, High Ridge Park, Stamford, Conn. 06905.

### **NOTICE ON ADVERTISING OR SOLICITATION COMPLAINTS**

The AICPA's professional ethics division has received many complaints under Rule 502 of the Code, "Advertising and Other Forms of Solicitation," and Interpretation 502-2, "False, Misleading or Deceptive Acts," that are difficult to investigate because the complaints do not describe why the advertisement is considered false, misleading or deceptive. This notice has been issued to advise members that if they submit a complaint on advertising or solicitation, they should identify what statements or claims they consider to be in violation of Rule 502.

It is the division's policy to commence case investigations regarding a member's self-laudatory or comparative statements with or without a complaint if such statements appear to be false, misleading or deceptive on their face. In all other situations, a complainant should supply the type of information described above before a case investigation can be commenced.

# ANNUAL REPORT OF JOINT ETHICS ENFORCEMENT PROGRAM ACTIVITY

July 1 – December 31, 1983

In line with the Institute's policy of reporting on disciplinary matters, the AICPA's professional ethics division has updated its statistics on the disposition of ethics investigations processed under the AICPA's Joint Ethics Enforcement Plan (JEEP) consisting of the AICPA's ethics division and 50 state CPA societies. This report is based on information submitted by the ethics division and 41 other JEEP participants.

The statistics cover cases, not the number of respondents in a case.

ETHICS COMMITTEE ACTIVITIES		<u>TOTALS*</u>
Investigations open at start of period	491*	
Investigations opened during period	<u>326</u>	
	<i>Total Investigations</i>	<u>817</u>
Administrative Reprimands issued	40	
Constructive comment letters issued	30	
No Violation findings	192	
Prima Facie cases in preparation for submission to Joint Trial Board Division	8**	
Cases Referred to Joint Trial Board Division		
Prima Facie cases for Trial Board Hearings	16	
For action under automatic provisions of bylaws	<u>6</u>	
	<i>Total Disposition of Case Investigations</i>	292
Remaining Investigations as of December 31, 1983;		
Investigations held pending outcome of litigation:		
State Society Ethics Committees	72	
AICPA Professional Ethics Division	74	
Cases under investigation:		
State Society Ethics Committees	296	
AICPA Professional Ethics Division	<u>83</u>	
	<i>Total Remaining Investigations</i>	<u>525</u>
	<i>Total Investigations</i>	<u>817</u>
JOINT TRIAL BOARD DIVISION ACTIVITIES		
Members Expelled under automatic provision of bylaws	2	
Members Suspended under automatic provision of bylaws	<u>4</u>	
		6
Trial Board Hearings:		
Members Admonished	1	
Members Suspended	3	
Cases being Appealed	1	
Resignation Accepted	1	
Cases Scheduled, not yet heard	<u>10***</u>	
		<u>16</u>
	<i>Total Joint Trial Board Division Cases</i>	<u>22</u>

\*Total figures are not comparable from period to period because of differences in the number and identity of the state societies reporting in any given year.

\*\*Six State Society members only.

\*\*\*Two State Society members only.

**ASB Ballot on  
Underwriters' Letters**

At its April 23-25 meeting, the Institute auditing standards board agreed to ballot on issuance of an SAS that will update SAS no. 38, *Letters to Underwriters*, to respond to recent developments in SEC reporting requirements.

The board also discussed preliminary reports on such topics as levels of assurance, auditability and completeness, and audit sampling implementation.

**Casino Audit and  
Accounting  
Guide Set**

A new audit and accounting guide, *Audits of Casinos*, was recently issued. Prepared by the gaming industry special committee in the auditing standards division, the guide provides information about casino operations including unique accounting, internal control, auditing and regulatory considerations.

The guide was prepared in response to the increasing interest in casinos as some states consider legalizing casino gambling. It is substantially the same as the draft exposed last May, except for a change in reporting promotional allowances.

Copies of the guide are available from the AICPA order department at \$8.50; \$6.80 to members (Product no. 013142).

**Oil and Gas  
Guide Proposed**

A proposed audit and accounting guide entitled *Audits of Entities with Oil and Gas Producing Activities* was exposed for comment recently. Prepared by the Institute's oil and gas committee, the draft describes operations and accounting practices unique to the audit of financial statements of such entities. Descriptions of accounting practices were limited to those essential to understanding typical audit objectives and procedures unique to the industry.

Specifically, the proposed guide discusses income taxes, internal control and audit considerations in the oil and gas producing industry. The draft also discusses the business activities of the industry—acquisition of mineral properties, exploration, drilling and development, oil and gas reserves and production. Comments are especially sought on the accounting for take-or-pay contracts.

Comments on the draft are due by July 24. Copies of the draft may be obtained from the AICPA order department (Product no. M814157).

**Draft of Life  
Reinsurance  
Exposed**

An exposure draft of a proposed statement of position entitled *Auditing Life Reinsurance* was recently issued. Prepared by the Institute's reinsurance auditing and accounting task force, the draft provides guidance on certain major aspects of internal accounting controls and auditing procedures for life reinsurance of ceding companies and assuming companies. The proposed statement is intended to supplement the AICPA industry audit guide, *Audits of Stock Life Insurance Companies*, and contains guidance which is similar to that in the SOP entitled *Auditing Property and Liability Reinsurance*, issued in October 1982.

The draft covers internal controls for ceded and assumed reinsurance as well as providing guidance on the auditor's tests of selected reinsurance contracts, transactions and related balances.

In another matter, the Institute recently sent an issues paper entitled *Computation of Premium Deficiencies in Insurance Enterprises* to the FASB. Prepared by the AICPA's insurance companies committee, the paper deals with whether the time value of money should be considered in the computation of premium deficiencies.

For copies of both papers, contact the AICPA order department.

**AICPA Revises  
Policy on Exposure  
Draft Distribution**

Effective immediately, up to and including five copies of all AICPA-produced exposure drafts will be made available free upon request to the order department. Additional copies are 50 cents each, with the exception of exposure drafts of audit guides which are \$2.00 each in excess of five copies. No postage or handling charges will apply to these orders.

- Recent IFAC Actions** At its recent meeting in Madrid, the international auditing practices committee of the International Federation of Accountants took the following actions:
- ☐ Approved for exposure, ED 22, *Representations by Management*, which provides guidance on the procedures the auditor should apply in obtaining, documenting and evaluating representations by management. Comments should be sent to the AICPA's auditing standards division by November 1.
  - ☐ Approved for re-exposure ED 16, *Events After the Balance Sheet Date*, which is being reissued for comment because of significant changes made from the draft issued in January 1983. Comments should be sent to the AICPA's auditing standards division by September 1.

The above papers are expected to be available next month from the AICPA order department, at prices to be determined.

IFAC was established in 1977 by representatives of more than 50 nations, now 65, with the broad objective of developing a coordinated international accountancy profession with harmonized standards. To further this, the group initiates and guides efforts to achieve international technical, ethical and educational guidelines for the accounting profession and reciprocal recognition of qualifications for practice.

**November 1983  
Sells Award  
Winners Announced**

For the November 1983 Uniform CPA Examination, 72,695 candidates completed a total of 262,710 papers. Elijah Watt Sells Awards are presented to those candidates who take all four sections of the examination at one time and receive the highest grades.

The winner of the Sells Gold Medal for the highest total on the Examination was George R. Kamperschroer of Madison, Wisconsin. A lawyer with the Madison firm of Boardman, Suhr, Curry & Field, he practices in the areas of state, federal, individual and corporate taxation. Kamperschroer is a graduate of the University of Wisconsin-Madison Law School.

The Silver Medal, the second highest award, was won by Jeffrey H. Kinrich of Studio City, California. Currently a manager at Price Waterhouse in New York, he is a graduate of Pomona College and received an M.B.A. degree in finance from the University of Maryland at College Park.

Also, Judith Ann Barnett of Midwest City, Oklahoma, was the winner of the Sells Bronze Medal, given for the third highest grade total. Presently with the firm of Gray Northcutt Olson & Co., she is a graduate of the University of Oklahoma.

In addition, 114 certificates with high distinction are being awarded to other high-scoring candidates.

The medals will be presented during the AICPA's annual meeting in Atlanta in October.

**AICPA Helps  
Develop Continuing  
Education Principles**

Representatives from academe, the professions, business and government recently met under the auspices of the Council on the Continuing Education Unit (CCEU) to introduce *Principles of Good Practice in Continuing Education*. Lanny Dey, director of CPE course development, was the AICPA representative and had served on the review panel during the project's three-year development period.

According to Dey, *Principles* brings together in one useable statement the best thinking about planning for quality in adult continuing education. The 18 principles, with their 72 elements, cover the quality of course content, student performance, marketing and administration, among other topics. "This document," said Dey, "is relevant to the accounting profession as a foundation upon which to build quality CPE programs. It should be of interest to all those in our profession who are involved in continuing professional education."

Copies of *Principles* are available from CCEU, 13000 Old Columbia Pike, Silver Spring, Maryland 20904, at \$5.00 each.

**Conference  
Focuses on  
Industry Interests**

A record 600 participants attended the Institute's National Industry Conference held April 26-27 in New Orleans. In opening the conference, B. Z. Lee, AICPA board chairman, focused on the activities undertaken for industry members during his tenure, noting particularly the work of Institute committees formed to study member services and the Institute's mission as it relates to all AICPA members. Members in industry, government and education now amount to around 47 percent of the total membership, he said.

Speakers included Lewis H. Young, Editor-in-Chief, *Business Week*; John Elkins of the Naisbitt Group, who focused on *Megatrends* and the future of CPAs in industry; and Dr. Robert L. Lorber, who addressed *Putting the One Minute Manager to Work*.

Concurrent sessions dealt with topics such as presentations to top management, pension accounting, computerized tools for the future and performance improvement planning. New this year were concurrent discussion workshops designed to foster the exchange of ideas among peers.

More on the conference will appear in a forthcoming issue of the *Journal of Accountancy*.

**Position Open  
for ASD  
Practice Fellow**

The Institute's auditing standards division is presently accepting applications for its practice fellow program. One individual will be selected for the program and will take a leave of absence from his or her firm for 18 to 24 months beginning this December.

Applicants should be CPAs with approximately five years of auditing experience and good communication skills. To apply, submit biographical data and a reference from your firm by July 1 to Dan Guy at the AICPA. For further information, call 212/575-6379.

Practice fellows function as members of the division's staff and work with the auditing standards board and other groups in developing statements and audit guides.

**AICPA Awards  
Additional Doctoral  
Awards**

Three more doctoral candidates have received grants-in-aid in connection with their dissertations in accounting, making a total of five grants totaling \$36,400 for the 1983-84 academic year. The recipients are

- ☐ Julia K. Brazelton, University of South Carolina, \$5,400. Topic: Tax Simplifications: The Implications on the Individual Taxpayer of a Consumption Tax Base.
- ☐ Graham Gal, Michigan State University, \$7,000. Topic: Expert Systems in the Evaluation of Internal Accounting Controls.
- ☐ Kay W. Tatum, Texas Tech University, \$7,200. Topic: An Empirical Investigation of SAS no. 39 Implementation Problems.

Copies of several dissertations from past grants-in-aid winners are now available in the AICPA library for reference. The *Accountants' Index* will list any dissertations by subject matter as they are received in the future.

**NOTICE OF AICPA PUBLIC MEETINGS**

**Accounting and Review Services**

An open meeting of the accounting and review services committee will be held on June 1 at the Hyatt Regency Grand Cypress in Orlando, Florida, from 9:00 a.m. to 5:00 p.m. The agenda has not yet been set, but will be reported by the meetings information telephone service at 212/575-5694.

The next committee meeting will be July 23 in Portland, Maine.

**Auditing Standards**

The June 5-7 meeting of the auditing standards board has been cancelled.

The next scheduled meeting of the board will be July 24-26 in Rye, New York.

## Washington Briefs

**Peters Named as SEC Nominee**—President Reagan recently named Ms. Aulana L. Peters, a Los Angeles attorney specializing in securities litigation, to succeed Bevis Longstreth as an SEC member. If her nomination is confirmed by the Senate, she would become the third woman to sit on the five-member commission.

**Tax Interest Rate Stays at 11 Percent**—The IRS, in IR-84-53, announced that the interest rate on tax underpayments and overpayments will stay at 11 percent through year-end. The rate also applies to the underpayment of estimated taxes.

**Egger Calls for Simpler Tax System**—“We have to stand back, rethink some of the basic assumptions about our tax system, and then tip the scales back toward a simpler and fairer tax system,” said IRS Commissioner Roscoe L. Egger, Jr., in a speech last month. The commissioner said that more and more taxpayers perceive the tax system to be inequitable and confusing, and that this perception will erode the present tax system.

**Congress May Move on Overvalued Gifts**—Taxpayers donating valuable works of art to charity didn't fare well in estimating the value of their donations, according to a recent IRS survey. The values of more than 200 of the 547 gifts of art reviewed by the IRS Arts Advisory Panel between 1980 and 1982 had an average overvaluation rate of 560 percent. More than a dozen of the gifts claimed by taxpayers exceed actual values by 1,000 percent, added the IRS. These and other recent IRS data are spurring a Congressional effort to support proposals to curb such abuses, including requiring donors to have all gifts appraised.

**Tax Freedom Day is May 1**—Tax Foundation economists recently announced that “Tax Freedom Day” for 1984—the day the average worker earns enough to pay all his federal, state and local tax obligations—was May 1. According to the Foundation, the average worker spends two hours and 40 minutes each eight-hour workday earning money to pay his obligations. The Foundation first began calculating “Tax Freedom Day” in 1930, when the date fell on February 13.

**Treasury Supports 30 Percent Withholding Repeal**—The Treasury Department recently reiterated its support for legislation to repeal the 30 percent withholding tax imposed on interest paid to foreign holders of U.S. companies' debt obligations. Noting that the Senate has approved a five-year phaseout of the withholding tax, Deputy Assistant Treasury Secretary Ronald Pearlman said: “We support the Senate proposal, although we prefer an immediate repeal of the withholding tax.”

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## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036

Second-class postage paid at New York, N.Y.  
and at additional mailing offices.

May 28, 1984  
Vol. 64 No. 10

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# The CPA Letter

**A Semimonthly News Report Published by the AICPA**

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**Council Declines  
to Authorize  
Ballot on  
Ethics Rule 302**

At its meeting on May 14-16 the AICPA's governing council declined to authorize a mail ballot of the membership on a proposed amendment to Ethics Rule 302—Contingent Fees. The change would have narrowed the proscription of all contingent fees to prohibit contingent fees only for professional services requiring independence. The proposed amendment had the support of the professional ethics executive committee and the board of directors.

The proposal was discussed extensively during the first two days of the meeting before coming to a vote on May 16. Prior to the final vote, two substitute proposals by council members were defeated. Many of the opponents to the proposal reasoned that any loosening of the restrictions against contingent fees would impair CPAs' reputation for objectivity and integrity.

On another ethics matter, council instructed the professional ethics executive committee not to issue a proposed interpretation of Rule 503—Commissions, which previously had been exposed for comment. This proposal would have defined the terms "client" and "products or services of others" as used in the rule. The committee was also instructed not to issue for exposure another proposed interpretation which dealt with circumstances where a member remits the entire commission to the client.

**McCloy; Gregory  
Announced as  
Medallists**

Samuel A. Derieux, chairman of the AICPA awards committee, announced at the council meeting the awarding of the Institute's Medal of Honor to John J. McCloy. The medal, established several years ago, is awarded to a nonmember for outstanding service to accounting. Mr. McCloy was the first chairman of the Public Oversight Board and has had a distinguished career in government including service as assistant secretary of war in World War II and high commissioner of Germany following the war. He is a partner in the law firm of Milbank Tweed Hadley and McCloy.

It was also announced that the Gold Medal for Distinguished Service will be awarded posthumously to past AICPA Chairman William R. Gregory at the annual meeting in Atlanta. Mrs. Virginia Gregory will accept the award on behalf of her husband.

**Ex-President Carter  
to Highlight AICPA  
Annual Meeting**

Former U.S. President Jimmy Carter will be the Monday luncheon speaker for the AICPA's 97th annual meeting to be held in Atlanta on October 14-16. Final touches are now being put on the program for the meeting. A brochure will be mailed to all members in early July and further information will be reported in the *Letter*.

Andrew J. Young, mayor of Atlanta, has been invited to open the meeting. Also, John Naisbitt, chairman of the Naisbitt Group and author of the best-selling book, *Megatrends*, will speak. The program will begin with the annual business meeting, addressed by Institute Chairman B.Z. Lee.

The technical agenda will consist of both plenary and simultaneous sessions designed for wide appeal. Mini-conferences will focus on topics such as marketing services to clients in a changing environment, development and marketing of litigation support services, forecasts and projections.

Also coinciding with the annual meeting will be Accountants' World, a product exposition of computer vendors, and two conferences: a conference on executive developments in microcomputer technology and a one-day MAS conference.



## **GASB Moves Ahead; Chairman and Board Named**

The Governmental Accounting Standards Board, which will establish standards for financial accounting and reporting by state, county and municipal governmental entities, moved into full fruition with the appointment of four members of a five-member board by the trustees of the Financial Accounting Foundation and ratification by the newly formed 20-member Governmental Accounting Standards Advisory Council on May 11.

James Antonio, the state auditor of Missouri, was named full-time chairman of the board, while Martin Ives, former first deputy controller of New York City, will be vice-chairman and director of research and also will serve full time. Two part-time members of the board will be Philip L. Defliese, professor of accounting at the Columbia University Graduate School of Business, former chairman and managing partner of Coopers & Lybrand and former AICPA board chairman; and Elmer B. Staats, former U.S. comptroller general. A third part-time member is to be named.

Following almost five years of discussions with various interested groups, the FAF agreed in January 1984 to organize the GASB. That agreement called for expansion of the foundation's board of trustees to include three members from state and local government. They are: John H. Poelker, former mayor of St. Louis; LeRay McAllister, Utah state senator; and Earle E. Morris, Jr., comptroller general of South Carolina.

Appointed chairman of the Governmental Accounting Standards Advisory Council was Earl M. Baker, chairman of the Chester County, Pennsylvania, board of commissioners. Paul A. Pacter, commissioner of finance of the city of Stamford, Connecticut, and former FAF executive director, was elected vice-chairman. Gerald Hepp of Michigan, chairman of the AICPA's state and local government accounting committee is the Institute's representative on the council.

Members of the new board will serve five-year terms and will be assisted by a research staff of 10. The GASB will share the same facilities as the Financial Accounting Standards Board in Stamford.

## **Upcoming Conferences**

*Estate Planning*—The seventh annual AICPA Estate Planning Conference will be held August 6-10 at the Hyatt Regency Hotel in Kansas City, Missouri. Aimed at practitioners experienced in estate planning, the conference will focus on current estate planning opportunities and techniques and will concentrate on problems most likely to be dealt with in actual estate planning situations. Registration is \$550. For information, call the CPE sales hotline (800/242-7269 which spells 800/AICPANY). In New York State call 212/575-5696.

Registrations are still being accepted for the Institute's fourth annual conference for the smaller CPA firms, which will be held twice this year—August 2-3 in San Francisco and November 8-9 in Washington, D.C.—with the same speakers and topics. For information, contact the AICPA meetings department.

The Government Finance Officers Association of the U.S. and Canada (GFOA), formerly the Municipal Finance Officers Association, will hold three government financial management seminars during the week of July 16-20 in Denver. The seminars are: Intermediate governmental accounting; money market management for governments and intermediate governmental budgeting. To receive a brochure and other information, contact the International GFOA Career Development Center, 180 North Michigan Avenue, Suite 800, Chicago, Illinois 60601 (312/977-9700).

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The CPA Letter (ISSN 0094-792x), May 28, 1984. Published semimonthly, except July and August when monthly. Publication and editorial office: 1211 Avenue of the Americas, New York, N.Y. 10036-8775. Second-class postage paid at New York, N.Y. and at additional mailing offices. Copyright © 1984 American Institute of Certified Public Accountants, Inc. Postmaster: Send address changes to 1211 Avenue of the Americas, New York, N.Y. 10036-8775.

## STATEMENT OF THE AICPA'S AUDITING STANDARDS DIVISION

The United States Supreme Court recently ruled that the Internal Revenue Service may demand audit tax accrual work papers of independent public accountants when examining the federal income tax returns of the accountant's clients. Subsequently, the IRS announced that the decision will not result in its changing the IRS Manual guidelines that provide that access to audit tax accrual work papers should be requested only in "unusual circumstances," only as a "collateral source of factual data," only after the examiner has taken all means to obtain the information from the client, and only after approval of the chief, examination division. Access must be limited to the material and relevant positions of the audit work papers related to the specifically identified issue(s).

Nevertheless, the Supreme Court decision has raised questions among reporting companies about audit of federal income tax matters, including the nature and amount of information to be made available to auditors and the extent to which information should be retained by the auditor. The questions raise concerns that the decision could inhibit auditor access to individuals and information necessary to evaluate the adequacy of federal income tax provisions and accruals.

An existing auditing interpretation entitled "The Effect of an Inability to Obtain Evidential Matter Relating to Income Tax Accruals" (AU 9326.13-.17) states that the auditor is not permitted to rely on an opinion of legal counsel to provide sufficient competent evidential matter regarding tax contingencies to afford a reasonable basis for an opinion on the financial statements. It notes that SAS no. 11, *Using the Work of a Specialist*, is intended to apply to situations requiring special knowledge about which the auditor does not have adequate technical training and proficiency. The recent Supreme Court decision confirmed that position by stating that accountants are ethically and professionally obligated to determine for themselves the adequacy of a client's tax accrual.

The interpretation also states that the third standard of field work requires the auditor to obtain sufficient competent evidential matter as to tax amounts through, among other things, inspection and inquiries to afford a reasonable basis for an opinion on the financial statements. It states, "the audit of income tax accounts requires a combination of tax expertise and the knowledge about the client's business that is accumulated during all aspects of the audit." If the auditor is unable to obtain sufficient competent evidential matter about tax assertions in the financial statements of material significance he would be required to qualify or disclaim an opinion on the statements. Significant client-imposed scope limitations generally require that the auditor disclaim an opinion.

The interpretation notes that working papers provide the principal record of conclusions the auditor has reached concerning significant matters and that ordinarily they should include, among other things, documentation showing that the audit evidence obtained afforded a reasonable basis for an opinion. The interpretation also states that "the nature and extent of audit working paper documentation that is necessary to meet those requirements is a matter of auditor's professional judgment in light of the circumstances and his needs on the specific engagement."

Given the interpretation and the restrictive provisions of the IRS Manual guidelines (which provisions were supported in the Supreme Court decision), the Supreme Court decision should not change the auditor's approach to the audit of income tax accruals.

The AICPA will be monitoring auditors' experiences in light of the decision from several aspects, including whether the Internal Revenue Service guidelines for audit work paper access are being adhered to by IRS agents and district offices during examinations. Practitioners should notify the AICPA's federal taxation division at 1620 Eye Street, NW, Washington, D.C. 20006, of any such situation for follow up with the IRS national office.

**Third Group of  
Accounting  
Programs  
Accredited**

The American Assembly of Collegiate Schools of Business, at its annual meeting this month, accredited 25 accounting programs at 16 schools. Since accounting accreditation began in 1982, 76 programs at 44 schools have qualified.

Three types of programs are accredited: (A) bachelor degrees with an emphasis in accounting; (B) master of business administration programs with an emphasis in accounting; and (C) master in accounting degrees, including 150 semester-hour accounting programs.

The colleges and types of accreditation are as follows: Bradley University (A); University of Delaware (A); De Paul University (A, B and C); University of Houston (A, B and C); Memphis State University (A); Miami University, Ohio (A); Michigan State University (A and C); University of Nebraska—Lincoln (A); University of New Orleans (A); University of Notre Dame (A).

Also, Oklahoma State University (A and C); Southern Illinois University at Carbondale (A); University of Texas at Arlington (A, B and C); Virginia Commonwealth University (A and C); Washington State University (A); and College of William and Mary (A).

The accreditation of accounting programs is a joint effort of the AACSB and the accounting profession.

**MDC Offers  
Custom Data  
Bases**

Mead Data Central, vendor for the Institute's National Automated Accounting Research System (NAARS), now provides information management services to accounting firms, corporations and law firms through LEXTRACK, a litigation support and private library service.

MDC can help organize an accounting firm's work paper files or procedure manuals and build custom-designed data bases which can be used to retrieve either the full text or indices of those materials. LEXTRACK data bases use the same software as LEXIS, NEXIS and NAARS and are accessible through MDC's terminals, the IBM-PC and other multi-function terminals.

For further information, contact Douglas S. Link, consultant, LEXTRACK, 2000 Court House Plaza, N.E., Dayton, Ohio 45463 (513/224-4844).

**NOTICE FROM BANKING COMMITTEE ON SEC RULES FOR STOCK TRANSFER AGENTS**

The Securities and Exchange Commission has adopted new rules affecting banks and other companies that serve as registered transfer agents. Rule 17Ad-13 now requires an annual study and evaluation of internal accounting control over transfer activities. For banks that are registered transfer agents, the required report on internal control can be obtained from either an independent accountant or internal auditor. The federal bank regulatory agencies are responsible for monitoring banks' compliance with this rule.

The new SEC rules require that the accountants' report describe any material inadequacy found to exist as of the date of the study and evaluation, any corrective action taken and the current status as of the date of the report. It should be noted that the SEC's definition of material inadequacy is not the same as a material weakness under SAS no. 30, *Reporting on Internal Accounting Control*. In its comments on the new rules, the SEC stated that the required study and evaluation "... is intended to detect weaknesses involving amounts that may not be considered material when compared to the transfer agent's assets, but would be considered material when viewed against the transfer agent's ability promptly and accurately to transfer record ownership and safeguard related securities and funds." CPAs who perform a study and evaluation under the new SEC rules should be cognizant of this important distinction.

For guidance as to the form of the report, the AICPA's banking committee notes that CPAs should refer to paragraphs 54 through 59 of SAS no. 30. Interim guidance is provided in the exposure draft of a proposed AICPA industry audit guide, *Audits of Brokers and Dealers in Securities*, in Chapter 3.

### **PCPS Conference Focuses on Future Directions**

Advances in audit efficiencies, public relations programs to foster PCPS recognition and development of CPA consulting services were among the topics discussed at the sixth annual conference of the AICPA private companies practice section of the division for CPA firms, which was held earlier this month in Denver. Approximately 400 members attended the two-day conference.

In a session highlighting the recently issued PCPS structure committee report, John T. Schiffman, a committee member, identified the need for more specific member services as one of its major recommendations. The development of a new member consulting service is "our attempt to help all of you meet the standard of consultation and to provide an additional resource tool to help all of us practice in a manner to benefit our clients more effectively," he added.

In preparing for the 1990s, the CPA firm will become more "boutique-like," predicted Donald T. Istvan of Barrington, Illinois, noting that consulting will replace more traditional services as the major source of billings in that period. Istvan viewed this shift in the nature of CPA practice as a reflection of an overall move toward a more "entrepreneurial society."

Two peer review innovations attracted considerable discussion at the member forum breakout sessions. First, PCPS firms that perform no audits will be able to meet the peer review requirement with an off-site report review, at a considerable cost-saving. Also, firms that have not yet been reviewed will be offered a confidential consulting review, with half of the fee applicable to their first peer review.

More on the conference will appear in a forthcoming issue of the *Journal of Accountancy*.

### **Three AICPA Members Expelled**

On March 5, 1984, the membership of Myron Finkelstein of Bloomfield, New Jersey, was terminated following revocation of his CPA certificate as a disciplinary measure by the New Jersey State Board of Accountancy. Mr. Finkelstein's membership had been suspended on June 21, 1983, pending appeal of his criminal conviction in the New Jersey Superior Court (See August 1983, *Letter*).

Under the AICPA bylaws, membership in the Institute shall be terminated without a hearing should there be filed with the secretary of the Institute a final judgment of conviction imposed upon any member for a crime punishable by imprisonment for more than one year.

- ☐ On March 23, 1984, the membership of James A. Kelly of Fort Lauderdale, Florida, was terminated following receipt by the secretary of evidence that his judgment of conviction of extortion had become final. Mr. Kelly had been suspended from Institute membership on February 15, 1983, because of this conviction in a U.S. District Court which was then being appealed (See May 9, 1983, *Letter*).

Under the AICPA bylaws, membership in the Institute shall be terminated without a hearing should there be filed with the secretary a final judgment of conviction imposed upon any member for willfully failing to file any income tax return which he, as an individual taxpayer, is required to file by law.

- ☐ On March 30, 1984, the membership of Ralph J. Torracco of Jersey City, New Jersey, was terminated following receipt of a judgment of conviction in a U.S. District Court on his plea of guilty to a charge of income tax evasion.

#### **NOTICE OF AICPA PUBLIC MEETING**

**Accounting Standards**—An open meeting of the accounting standards executive committee will be held June 13-15 in the AICPA boardroom, New York, starting at 9:00 a.m. each day. The agenda, which has not been set yet, will be reported by the meetings information telephone service at 212/575-5694.

The next committee meeting is slated for July 31-August 2 in New York.

## Washington Briefs

**Rules Proposed on Cafeteria Plans**—In February, the IRS warned that certain cafeteria fringe benefit plans could result in taxable income to employees. Recently, the IRS, in IR-84-59, attempted to clarify its prior warning in a series of questions and answers. Under the proposed regulations, contributions to reimbursement arrangements generally are taxable if employees are entitled to receive amounts whether or not they incur—or are reimbursed for—reimbursable expenses. However, until June 1, 1984, contributions to certain arrangements will not be taxable.

A hearing on the proposed regulations is set for July 26. The proposed 1984 tax bill, likely to be taken under consideration by a joint Congressional conference committee shortly, could further amend the definition of a cafeteria plan.

**Marinaccio Likely New SEC Member**—The Senate banking committee has approved President Reagan's nominee, Charles L. Marinaccio, who has been the committee's minority general counsel since 1975, to be a member of the SEC. If approved by the full Senate, he would succeed Barbara S. Thomas. Aulana Peters' nomination to the SEC (see May 14 Letter) was also approved.

**"Fast" Tax Bill Introduced**—Still another flat-tax measure was proposed recently when Senator Robert Kasten (R-Wis.) and Representative Jack Kemp (R-N.Y.) introduced legislation which they call "FAST," for Fair and Simple Tax. "Fast" would substantially reduce maximum tax rates for individuals and corporations and eliminate many existing deductions, exemptions and credits. According to its sponsors, the bill is aimed at being revenue neutral but would essentially eliminate tax shelters and loopholes, while keeping the federal income tax burden the same by income class.

**Tax Litigation System Reform Urged**—Senior Tax Court Judge Theodore Tannenwald, Jr., recently called for establishing a national court of tax appeals to handle the backlog of 57,000 cases now confronting the Tax Court. Tannenwald recommended that the tax litigation system be restructured, with additional district court judgeships set up to handle all tax litigation at the trial level. He described the nation's tax litigation system as currently being in "a state of crisis."

**Hearings on Tax System Set**—The Treasury Department recently said that public hearings will be held in seven cities next month on suggestions to change the federal tax system. For information, contact the Treasury Tax Reform Study, Department of the Treasury, P.O. Box 299, Washington, D.C. 20044.

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## The CPA Letter

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Second-class postage paid at New York, N.Y.  
and at additional mailing offices.

June 11, 1984  
Vol. 64 No. 11

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# The CPA Letter

**A Semimonthly News Report Published by the AICPA**

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## **Draft on Prospective Financial Statements Set**

The Institute's auditing standards board has agreed to issue an exposure draft of a proposed statement on prospective financial statements. The draft of the proposed statement provides standards on the procedures accountants should perform, and how they should report, when consenting to the use of their names in conjunction with prospective financial statements that are not restricted to internal use.

Comments on the draft are due by October 26 and should be directed to the AICPA's auditing standards division. The draft will be available later this month from the AICPA order department.

In addition, the comment period for the proposed guide on prospective financial statements, which was exposed for comment last September 20, has been extended until October 26, to allow members to consider and comment on the guidance included in both the proposed guide and the proposed statement. Comments on the proposed guide and the proposed statement may be combined into one letter.

## **Small Business Issues Conference Held**

As this issue of the *Letter* goes to press, 110 delegates from five sponsoring organizations, including the AICPA, are participating in a small business national issues conference in Washington to develop recommendations on small business problems and solutions to be presented to candidates for national political office.

During the 3½-day conference on June 8-11, the group is reviewing dozens of issues papers prepared by the delegates over the past year. They include problems in such areas as competition and regulated industries, economic policy, finance and capital formation, government operations, human resources and taxation. From these papers, the participants will select a number of high priority items which, together with the conference recommendations, will be included in the final report.

Thomas P. Brock, a member of the AICPA's small business committee, is the general chairman of the conference.

The other sponsoring groups are the Chamber of Commerce of the United States, the National Federation of Independent Business, the National Small Business Association and Small Business United.

## **FASB Seeks Comments on Stock Compensation Plans**

The Financial Accounting Standards Board recently issued an invitation to comment on issues addressed in the board's reconsideration of an employer's accounting for compensation plans involving certain rights granted to employees. The document, *Accounting for Compensation Plans Involving Certain Rights Granted to Employees*, is the first step in the board's project to reconsider APB Opinion no. 25, *Accounting for Stock Issued to Employees*.

The board decided to reconsider employee stock compensation plans last March, said FASB Practice Fellow Steven P. Johnson, "because of concerns that different forms of plans may result in different accounting, even though the substance of the plans is essentially the same."

Comments on the paper are due by September 28. For further information, contact the FASB, Order Department, High Ridge Park, Stamford, Conn. 06905.

In another matter, the board decided not to add to its technical agenda a project on pooling of interests accounting following a treasury stock acquisition.

### **IRS Issues Rules on Interest-Free Loans**

On February 22, the U.S. Supreme Court ruled that an interest-free demand loan from one family member to another results in a taxable gift of the value of the interest foregone (*Dickman v. Commissioner*). The IRS, in Information Release 84-60, announced an administrative reporting exception which it will use in applying the *Dickman* decision. The IRS will not require gift tax reporting for loans if the amount of the gift is less than the annual exclusion for the year, or if the average loan balance does not exceed \$100,000 made by a married couple (\$50,000 made by a single taxpayer).

The release dated May 11 includes a table of interest rates for calculating the reporting exception amount of the gift created by an interest-free demand loan between family members. The table goes back to 1960. A later revenue procedure will include tables for older loans and will encompass the contents of the May 11 announcement.

The Institute's federal tax committee has prepared guidance on practitioner responsibilities in dealing with these matters. The guidance is slated to appear in the July issue of the *Journal of Accountancy*.

### **SEC Commissioner Discusses Focus on Accounting**

"In a very real sense, accounting is what the commission is all about," said SEC Commissioner James C. Treadway, Jr., in a recent speech at the SEC and Financial Reporting Institute, University of Southern California at Los Angeles. Responding to comments that the SEC's interest in accounting matters has become more "visible" during the past two years, Treadway said that "financial statements are the foundation of our disclosure system. If their integrity is undermined because they are inaccurate or distorted, the entire disclosure process is corrupted."

The commissioner concluded "with a note of encouragement and challenge." Said Treadway: "The challenge is for the commission, the FASB, the accounting profession and reporting companies to cooperate to make the process work and to see that accounting occupies its deserved position of prominence."

### **Recent AcSEC Actions**

At its meeting last month, the Institute's accounting standards executive committee approved a letter of comment on the FASB's exposure draft of a proposed Statement of Financial Accounting Concepts, "Recognition and Measurement in Financial Statements of Business Enterprises."

Also, AcSEC discussed an issues paper, "Identification and Discussion of Certain Financial Accounting and Reporting Issues Concerning LIFO Inventories," and agreed that the task force on Lifo inventory problems should continue to develop the project in the form of an issues paper. AcSEC further agreed to reconsider in the future the need for a statement of position or guide on Lifo. Discussion on the paper is set for AcSEC's July meeting.

The committee also decided to continue discussion of an issues paper, "Accounting for Income Taxes of Stock Life Insurance Companies," at its meeting later this month.

### **Record Refund on AICPA Insurance Trust Set for July**

The insurance committee of the AICPA Insurance Trust has announced that the Trust's 1984 refund will exceed the \$30 million mark for the first time in its history. All plans—CPA Plan, Group Insurance Plan and Long Term Disability Income Plan—and all age classifications will participate in the 1984 refund distribution. Refund checks are expected to be mailed during the week of July 9.

## **AICPA Opposes Provision in Tax Bill**

A Senate amendment to the tax bill, H.R. 4170, to require tax preparer verification of certain recordkeeping requirements by taxpayers has been opposed by the Institute's tax division executive committee. Section 179(c)(5) of the Senate amendment reads "... any income tax return preparer who prepares a return of the tax imposed by this chapter for any taxable year shall verify that adequate contemporaneous records have been kept supporting deductions to which this subsection may apply before signing such return." There was no preparer verification requirement in the House version.

House and Senate conferees were scheduled to meet last week to resolve their differences on this major pending legislation.

In a letter sent to selected congressmen on May 15, Albert B. Ellentuck, chairman of the Institute's federal tax division, had voiced concern over a number of proposals in the pending tax legislation. In the area of estate tax legislation, for example, Ellentuck said, "The Senate bill would repeal the special \$100,000 gross estate tax exclusion for benefits from qualified pension plans and IRAs. We oppose this repeal and believe it should be retained."

Ellentuck's letter also stated opposition to imposing a verification requirement on income tax preparers.

## **Recent Publications**

*MAS Practice Administration Aid 1: Developing an MAS Engagement Control Program*—The first in a new series addressing administrative matters related to MAS, this document is aimed at helping interested CPA firms develop or revise an MAS engagement control program. Price is \$8.50; \$6.80 to members (Product no. 055802).

*MAS Technical Consulting Practice Aid 5: EDP Engagement: Assisting Clients in Software Contract Negotiations*—This aid provides information and guidance relating to software contract negotiations with a third party as well as reviewing the types of contracts and factors to be considered. Price is \$7.50; \$6 to members (Product no. 055060).

Both publications are available from the AICPA order department (212/575-6426). If net total is under \$10, add postage and handling charge of \$2.

The latest program in the CPA Video Journal series is no. 34, *Career Success in Public Accounting*, which looks at the state of the current job market in public accounting. For further information, contact Teresa Zimmerer at the AICPA (212/575-5573).

Effective July 1, the International Federation of Accountants will publish an IFAC Handbook in loose-leaf form, covering all guidelines, statements of guidance and standards issued by IASC and IFAC through June 30. The handbook, also containing other IFAC information, will be made available on a subscription basis. For information, contact IFAC, 540 Madison Avenue, New York, N.Y. 10022.

### **NOTICE OF AICPA PUBLIC MEETING**

#### **Federal Taxation**

The executive committee of the federal taxation division will hold an open meeting on July 12-13 in Denver, Colorado, at the Marriott Hotel-City Center starting at 9:00 a.m. each day. The agenda has not been developed but will be reported by the meetings telephone information service. The number is 212/575-5694.

The next committee meeting is scheduled for October 1-2 in Washington, D.C.



## Washington Briefs

**Anti-Discrimination Laws Apply to Partnerships**—In a legal case which may ultimately impact some CPA firms, the U.S. Supreme Court recently decided that a partnership's decision as to promoting an employee to partner must comply with key civil rights laws against employment discrimination. The decision (*Hishon v. King & Spalding*, no. 82-940), giving an Atlanta lawyer the right to sue her former law firm on a charge of sex discrimination, may expose other partnerships to job-bias lawsuits for refusing to promote individuals to partner.

**Senate Confirms Two for SEC**—Last month the Senate voted unanimously to confirm Ms. Aulana Peters and Charles L. Marinaccio as members of the SEC. When sworn in later this month, Ms. Peters will be the first black commissioner in the SEC's 50-year history. Marinaccio was sworn in on May 24.

**SEC's Major Issues Conference Set**—The SEC's third annual Major Issues Conference will mark the commission's 50th anniversary and is slated for June 28-29. The conference will feature discussions on topics such as the financial service industry, mergers and acquisitions and technology in the securities industry. For information, contact Betty Lear at the SEC (202/272-7349). Speakers include Vice-President Bush and Treasury Secretary Regan.

**Casualty Loss Deduction Not Barred By Not Filing Claim**—Overturning a 1968 ruling, the U.S. Court of Appeals for the Sixth Circuit recently held that a voluntary election not to file an insurance claim does not prevent the insured from claiming a casualty loss deduction. In the decision (*Miller v. Commissioner*, 53 AFTR2d 84-1252), the court held that the phrase, "not compensated by" is not to be equated with the phrase "not covered for," and that the taxpayer in this case wasn't compensated by insurance and thus the deduction is allowed.

**Making Passbook Savings Interest Tax-Free**—A bill was introduced recently in the House of Representatives to make interest earned on passbook savings accounts partially exempt from income tax. Interest on accounts paying six percent or less would be tax-free up to \$5,000 for individuals and \$10,000 on a joint return.

**New SEC Forms for Business Combination Filings**—Last month, the SEC issued two proposed new registration forms, Form S-4 and Form F-4, to be used for registering securities in connection with business combination transactions, including exchange offers. The forms are aimed at simplifying the disclosure procedures for mergers and exchange offers.

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## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036

Second-class postage paid at New York, N.Y.  
and at additional mailing offices.

June 25, 1984  
Vol. 69 No. 12

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# The CPA Letter

A Semimonthly News Report Published by the AICPA

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## **Draft on Pro Forma Information to be Exposed**

The Institute's auditing standards board will shortly issue an exposure draft of a proposed statement on auditing standards entitled *Reporting on Pro Forma Financial Information in SEC Filings*. The proposed statement provides guidance on the independent accountant's responsibilities and procedures when engaged to report on pro forma financial information contained in a filing with the SEC. It also describes the conditions under which the accountant may agree to report.

The accountant's report should include the following, according to the draft:

- ☐ An identification of the information.
- ☐ A statement that the review of the information was made in accordance with applicable AICPA standards and a brief description of the nature of such a review.
- ☐ A statement "regarding whether the accountant believes that management's assumptions provide a reasonable basis for presenting the significant direct effects of the transaction or event and whether the related pro forma adjustments give appropriate effect to those assumptions and are properly applied in the pro forma financial information."

Comments will be due by October 1. Copies of the draft will be available early in July from the AICPA order department (Product no. G00320).

## **FASB Holds Regional Meetings on Income Taxes**

Last month the Financial Accounting Standards Board held several forums to hear views of small companies and local CPA firms on accounting for income taxes. About 85 participants expressed their views on the issues being considered by the board, as presented in its 1983 discussion memorandum. According to board member David Mosso, the May meetings were an experiment at making input easier for these groups.

At the meetings, James J. Leisenring, FASB director of research and technical activities, gave an overview of the board's structure and process. He also reviewed the actions taken so far by the board and the AICPA concerning accounting standards overload. E. Raymond Simpson, FASB project manager, then summarized the major issues in the discussion memorandum.

Practically none of the participants voiced support for different standards on accounting for income taxes for small companies. The AICPA's special committee on accounting standards overload has recommended consideration of differential measurement when simplification of a standard could not be achieved. More on the meetings will appear in a forthcoming *Journal of Accountancy*.

## **Client Bulletin to Summarize Tax Act**

With passage of the 1984 Tax Act, the *CPA Client Bulletin* is planning a special report on this important legislation, particularly as it affects small business and individuals. The report will be issued as soon as possible, irrespective of the regular monthly deadline, to ensure that subscribers will receive the material on a timely basis. Additional copies of this issue will be available in lots of 25 at \$5 per lot for subscribers; \$10 for nonsubscribers.

Nonsubscribing firms who wish to receive this monthly publication for smaller clients may start their subscription (minimum order is 50 copies) with this special issue by contacting Arthur Lodge at the AICPA (212/575-6277) by July 31.

**Recent Publications** *Dealing With Today's Tax Problems: Tax Saving Ideas from the Tax Adviser*—This 1984 edition contains several articles culled from *The Tax Adviser* during the past year. Among the topics discussed are corporate estimated tax rules, shared equity arrangements and service partnership mergers. Price is \$8; \$6.40 to members (Product No. 054602).

The Institute will shortly publish a new paperback edition of its guide to current standards. *AICPA Professional Standards* is available at a discount (\$22, Product no. 004406). The FASB's *Accounting Standards – Current Text* is also available at a discount (\$24.60, Product no. 004425). The two titles are \$37.40 (Product no. 004430).

Also available are *Technical Practice Aids* (\$13.60, Product no. 004459) and *Audit and Accounting Manual* (\$13.60, Product no. 007250). The FASB's *Accounting Standards – Original Pronouncements* (\$22.60, Product no. 004444) has this year been included in the package. The five-title set is \$77 (Product no. 004463). All volumes are updated as of June 1, 1984.

All publications are available from the AICPA order department (212/575-6426). If net total is under \$10, add postage and handling charge of \$2.

The latest program in the CPA Video Journal series is no. 35, *Client/Auditor Relations*, offering advice on how to develop a good relationship between the internal and external auditors. For further information, contact Teresa Zimmerer at the AICPA (212/575-5573).

The FASB is starting an Original Pronouncements Loose-Leaf Service this month, which includes board material such as: statements of standards, interpretations, discussion memoranda, exposure drafts, technical bulletins and statements of concepts. Subscribers to the service will also receive *Action Alert*, a weekly bulletin on board meetings, *Status Report* and other board pronouncements. For information, contact Louis Schilt at the FASB (203/329-8401 extension 221).

### **Two AICPA Members Expelled**

On May 5, 1984, the membership of Randal L. Anderson of Enterprise, Oregon, was terminated following his failure to comply with the requirements of a regional trial board hearing panel which adjudicated ethics charges against him on August 11, 1983. The hearing panel, which found Mr. Anderson guilty of violating certain technical standards, required that he undergo a quality review of his practice within two months of the effective date of the panel's decision or be expelled without further proceedings (see April 23, 1984, *CPA Letter*).

On May 5, 1984, the membership of Burnie L. Brewer of Indianapolis, Indiana, was terminated by a regional trial board hearing panel for failing to comply with the panel's requirement that he complete 60 hours of continuing professional education courses within one year of the panel's decision. On August 13, 1982, Mr. Brewer had been found guilty by the hearing panel of violating the Institute's technical standards rules and was admonished and directed to complete 60 hours of CPE. If he did not, the panel reserved the right to reconvene in order to determine what further sanctions might be appropriate (see November 8, 1982, *CPA Letter*).

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The CPA Letter (ISSN 0094-792x), June 25, 1984. Published semimonthly, except July and August when monthly. Publication and editorial office: 1211 Avenue of the Americas, New York, N.Y. 10036—8775. Second-class postage paid at New York, N.Y. and at additional mailing offices. Copyright © 1984 American Institute of Certified Public Accountants, Inc. Postmaster: Send address changes to 1211 Avenue of the Americas, New York, N.Y. 10036—8775.

### **GASB Holds First Meeting; Names Fifth Member**

The newly organized Governmental Accounting Standards Board (see May 28 Letter) held its first meeting June 14 and, among other things, approved its first statement identifying GAAP applicable to state and local governmental units. The first GASB statement is expected to be issued in mid-July.

The board also will hold four public meetings later this summer on its project agenda. The following items were approved for the technical agenda: basis of accounting, pension accounting and financial reporting.

W. Gary Harmer, administrator for educational resources, clerk-treasurer and chief financial officer of the Salt Lake City School District, has also been named as the fifth member of the GASB, completing the board.

### **Upcoming Conferences**

*Governmental Update*—The AICPA's first annual Governmental Accounting and Auditing Update Conference will be held September 16-17 at the Shoreham Hotel in Washington, D.C. Targeted at federal, state and local governmental officials and practitioners, the conference will provide an update on critical accounting and auditing developments including topics such as the single audit, cash management and state and local conversion to GAAP.

Speakers include Joseph R. Wright, deputy director, Office of Management and Budget, and AICPA President Philip B. Chenok. Price is \$150.

For information, call the CPE Hotline (800/242-7269 which spells 800/AICPANY). In New York State call 212/575-5696.

*Savings and Loan*—A national conference prepared by the AICPA's committee on savings and loan associations will be held September 12-14 at the Sheraton Washington Hotel in Washington, D.C. The two-day program is aimed at providing information on current developments in thrift accounting, auditing and accounting as well as insights into the industry's future. New this year will be an optional program focusing on microcomputer applications for thrifts, EDP auditing and conversion filing requirements.

For further information, contact the AICPA meetings department.

### **NOTICE OF AICPA PUBLIC MEETINGS**

#### **Accounting Standards**

An open meeting of the accounting standards executive committee will be held in the AICPA boardroom, New York, on July 31 through August 2 starting at 9:00 a.m. each day. The agenda has not yet been determined, but will be reported by the meetings telephone information service.

The next scheduled meeting is September 24-26 in the AICPA boardroom.

#### **Accounting and Review Services**

The accounting and review services committee will hold an open meeting on July 23-24 in the AICPA offices, New York, starting at 9:00 a.m. each day. The agenda follows:

- ☐ Monday, July 23 – Discussion of the auditing standards board's project on prospective financial statements.
- ☐ Tuesday, July 24 – Discussion of the auditing standards board's project on levels of assurance and other matters.

The committee's next meeting is scheduled for Boston on September 7.

#### **Auditing Standards**

An open meeting of the auditing standards board will be held on July 24-25 at the Rye Town Hilton Hotel, Rye, New York, starting at 8:30 a.m. each day. The agenda will be reported by the telephone service.

The next meeting is scheduled for September 5-7 in Chicago.

**Agendas and changes will be reported by the meetings telephone information service.**

**The number is 212/575-5694.**

## Washington Briefs

*AICPA Comments on Taxpayers' Safeguard Measure*—Last March, a bill, S. 2400, the "Taxpayers' Procedural Safeguard Act," was introduced in the Senate. The bill is aimed at establishing additional protections for taxpayers in the area of levy and seizure of property by the IRS. The tax administration subcommittee of the Institute's federal tax division recently reviewed the bill and submitted comments to the Senate Finance Committee. A summary of the comments has been published in the June *Tax Adviser*. While the committee agrees with certain of the bill's concepts, much of it was found to be "counterproductive." The bill "appears to create more incentives for people not to pay their taxes rather than adequately protecting their rights."

*IRS Follows Up (Engle) Decision*—Late last month, the IRS announced that lessors of oil and gas properties who receive bonuses or advance royalties generally will be allowed to deduct percentage depletion on those amounts in the year the amounts are includible in gross income. The IRS' announcement was made in light of the U.S. Supreme Court decision (*Commissioner v. Engle*, January 10), in which the Court held that percentage depletion rules added to the law in 1975 didn't bar depletion deductions on bonus or royalty payments.

*Hearings Set on Fringe Benefits*—Hearings to "develop a full, fair hearing record on current fringe benefit topics" will be held July 26-27 by the Senate Finance Subcommittee on Taxation and Debt Management. Among the topics to be discussed are tax policy issues involving fringe benefits, including whether tax laws should encourage employers to provide such benefits.

*More on Backup Withholding*—The IRS, in IR-84-61, said that backup withholding applies to other reportable payments as well as interest and dividends. The release was aimed at making payers aware that the requirement also applies to rents, nonemployee compensation and other payments made in the course of business or trade. Also, transactions by brokers and barter exchanges are subject to the requirement.

*SEC Chief Warns of Leveraged Buyouts*—In a recent speech, SEC Chairman John S.R. Shad warned that there could be more corporate bankruptcies due to a rising tide of leveraged takeovers and buyouts. "The leveraging up of American enterprise will magnify the adverse consequences of the next recession or significant rise in interest rates," he said. Shad added that he was addressing the topic because he said the key issues involved "should be weighed by the business and financial community, the Congress and the SEC."

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# The CPA Letter

**A Semimonthly News Report Published by the AICPA**

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**AICPA Blocks  
Preparer  
Verification  
Measure in  
New Tax Bill**

The Senate version of the recently enacted tax bill would have required preparers to verify records relating to business travel, entertainment, gifts, and business use of automobiles and other personal property. While the word "verify" was not defined, it could have required CPAs to examine detailed records substantiating business expenses. Also, there was concern that the \$100 and \$500 return preparer penalties under section 6694 of the code or the harsher penalties under section 6701 for aiding and abetting an understatement of tax liability would apply.

The requirement would have changed the basic relationships among the taxpayer, the preparer and the IRS; would have been inequitable, affecting only those who use return preparers; and would have been costly and irritating to taxpayers who would be paying to have their records audited by their preparer. It appeared to be a first step toward using the CPA as an examiner for the IRS.

The AICPA's Washington office, in concert with the Institute's Key Person Program, argued successfully against the verification requirement, which was deleted in conference, and the role of the CPA as taxpayer adviser was preserved. Under the conference agreement, the preparer will only be required to advise taxpayers of the record keeping requirements and obtain written confirmation from the taxpayer that adequate contemporaneous records exist, with a \$25 penalty for failure to comply.

Members who wish copies of the special report on the new tax law from the CPA Client Bulletin (see June 25 Letter) may order them in lots of 25 from the circulation department. Price is \$5 per lot for extra copies for Bulletin subscribers; \$10 for nonsubscribers.

**FASB Exposes  
Draft on  
Postretirement  
Health Care  
Disclosures**

The Financial Accounting Standards Board has issued for public comment an exposure draft of a proposed statement, *Disclosure of Postretirement Health Care and Life Insurance Benefits Information*, with comments due by September 21.

The board is proposing this statement on standards as an interim measure, pending completion of its project on postemployment benefits (other than pensions). The following disclosures would be required under the current proposal:

- ☐ A description of the benefits offered.
- ☐ The cost of those benefits included in net income for the period.
- ☐ A description of the current accounting and funding policies for those benefits.
- ☐ The effect of significant matters affecting the comparability of the costs recognized for all periods presented.

The disclosures may be made separately for each type of benefit provided or aggregated for all benefits. The effective date would be for financial statements on periods ending after December 15, 1984 for plans provided in the U.S. and foreign countries. If foreign plan information is unavailable, it need not be included in financial statements issued before June 15, 1985.

The board has also revised its Technical Bulletin no. 79-1 to expand the scope of the technical bulletins and to modify issuing procedures. The new procedures require that all proposed bulletins be made available for public comment and that the board consider all proposed bulletins at a public board meeting.

## Highlights of AcSEC Meeting

At its meeting last month the accounting standards executive committee approved several documents for final publication or exposure.

*Financial Reporting for Not-for-Profit Health Care Entities for Tax-Exempt Debt and Certain Funds Whose Use Is Limited*—this statement of position was approved for final publication. It concludes that

- ☐ Unrestricted funds should be called general funds (as defined) and health care entities should report, as liabilities in the general funds section of the balance sheet, debt issued for their benefit and for repayment of which they are responsible when the debt is issued.
- ☐ Only assets restricted by a donor or grantor should be reported in the restricted funds section of the balance sheet; all other assets should be reported in the general funds section.
- ☐ Assets should be reported in the general funds section as having limited use when they are limited, in substance, under terms of debt indentures, trust agreements, third-party reimbursements or similar arrangements.
- ☐ Interest expense and investment income on borrowed funds held by a trustee (to the extent they are not capitalized) should be reported separately as operating expense or operating revenue, respectively. Alternatively, they may be netted and reported as operating expense or revenue with the offsetting amount disclosed parenthetically. Investment income related to funds whose use is limited under third-party reimbursement arrangements (funded depreciation) and funds held by a trustee that are not borrowed should be reported as nonoperating revenue.

*Audits of Credit Unions*—This audit and accounting guide was approved for final publication and a proposed revision to *Audits of State and Local Governments* was approved for exposure. Both guides are intended to assist members in examining the financial statements of these entities.

*Accounting for Income Taxes of Stock Life Insurance Companies*—This issues paper was approved for submission to the FASB. It discusses five proposed accounting methods for dealing with the effects of changes in the tax law for life insurance companies.

Approved a letter of comment to the FASB on its proposed interpretation, *Determining the Measurement Date for Stock Option, Purchase and Award Plans Involving Junior Stock*. AcSEC generally supports the proposal that plans involving junior stock are variable plans under APB Opinion 25 because issuance of regular common stock is uncertain until certain performances are achieved or certain transactions occur.

Decided that it is conceptually inappropriate for banks not to record deposit float, that is, checks deposited by customers but not yet collected. A notice on this subject is planned for a future *Letter*.

## Tax Division Membership Approaches 10,000

In a little over two months the AICPA's new Tax Division has attracted more than 9,600 members and the numbers are increasing.

The division was formed to serve AICPA members who have an interest in taxes. The basic annual membership of \$70 includes a subscription to *The Tax Adviser*, tax division position papers and newsletter, agendas and highlights of executive committee meetings and those of a subcommittee of the member's choice. The membership year starts August 1 to coincide with the AICPA fiscal year. For further information, contact the circulation department (212/575-7648).

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The CPA Letter (ISSN 0094-792x), July, 1984. Published semimonthly, except July and August when monthly. Publication and editorial office: 1211 Avenue of the Americas, New York, N.Y. 10036—8775. Second-class postage paid at New York, N.Y. and at additional mailing offices. Copyright © 1984 American Institute of Certified Public Accountants, Inc. Postmaster: Send address changes to 1211 Avenue of the Americas, New York, N.Y. 10036—8775.

## *You are cordially invited...*

### **THIS YEAR'S AICPA ANNUAL MEETING**

will be more rewarding than ever for AICPA members and their guests. Plenary sessions and luncheon addresses will feature outstanding public and professional figures... and a series of mini-conferences will explore a broad range of subjects on major aspects of technical service and practice management.

In addition—for the first time—the meeting will include *Accountants World*, a fascinating exposition of accounting-oriented products and services

presented in a “hands-on” environment. And immediately following the meeting, you will be able to attend two important conferences on microcomputers and management advisory services.

A full schedule of social programs and tours will enable you and your spouse to enjoy the incomparable pleasures of Atlanta and its refreshing mountains and countryside—making your attendance at the 1984 Annual Meeting a most profitable and memorable experience.

# AICPA 97th Annual Meeting

ATLANTA, GEORGIA  
OCTOBER 14-16, 1984



## **Featured Speakers**

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Former President of the United States

**Andrew J. Young**

Mayor of Atlanta, former U.S. Congressman and Ambassador to the United Nations

**Martin Feldstein**

Former Chairman, Council of Economic Advisers

**John Naishitt**

Author of *Megatrends*

**B.Z. Lee**

1983-84 AICPA Chairman of the Board

**Ray J. Groves**

1984-85 AICPA Chairman of the Board

**Philip B. Chenok**

President, AICPA

## **Mini-Conferences**

**Marketing Services to Clients in a Changing Environment**

**Developing and Marketing of Litigation Support Services**

**Strategies for Financial Analysis**

**Forecasts and Projections**

## **Major AICPA Conferences**

**Executive Developments in Microcomputer Technology**

**October 16-17, 1984**

To enable participants to recognize the issues involved in the use of microcomputers and discuss how these issues can be managed.

**Small Business Consulting**

**October 18, 1984**

To enhance the practitioners' skills in marketing their management advisory services skills to small business clients.



## **Accountants World**

National Accounting Exposition and Conference featuring exhibits and demonstrations of the accounting-oriented products, systems and services of nearly 100 companies.

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Annual Meeting Only, AICPA Members or Professional Guest \$210

Annual Meeting Social Program for Spouse or Guest \$160

Annual Meeting and Microcomputer Conference, AICPA Member or Professional Guest \$350

Microcomputer Conference Only \$200

Small Business Consulting Conference Only \$145

Please phone or write for additional details and registration form.

**Meetings Department—AICPA Annual Meeting**

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## **SUMMARY OF ANNUAL MEETING MINICONFERENCES**

In an effort to offer the most current topics of interest to the membership, this year's miniconferences, each of which will be two-and three-quarters hours long, will be offered on Tuesday, October 16.

### **Marketing Services/Clients in a Changing Environment**

Business advisory services account for an increasing percentage of firms' service mix and are considered by many firms to be essential for future growth. This session will focus on the need for partners to understand the importance of these services to the success of the firm. The speakers will discuss how to market two services—microcomputer services and personal financial planning—to potential clients.

### **Developing and Marketing of Litigation Support Services**

The number of lawyers increased by nearly 16 percent in the past three years. Accounting firms are increasingly being called upon by law firms to assist in corporate matters and litigation involving their clients.

Significant professional opportunities and rewards exist in the area of providing accounting and litigation support to attorneys. The panel discussion will apprise the practitioner of the full range of these opportunities and how to become involved in this area of professional service.

### **Strategies for Financial Analysis**

Sponsored by the AICPA Industry Committee, this miniconference will examine current issues and challenges in financial analysis . . . the nature of accounting data . . . and specific financial analysis techniques. Participants will also discuss the various factors that affect the "truth" in accounting, such as the changing value of money and short-run versus long-run profitability, and how to uncover the facts behind the figures.

### **Forecasts and Projections**

This miniconference will include a discussion of the recently exposed standards on accountant's services with respect to forecasts and projections as well as guidance on presentation of prospective financial statements and insights regarding presentations not covered by the proposed guidance. It will also include a discussion of how the proposed rules may affect the CPA's practice in the future and suggestions about how they might be implemented. There will be a question and answer session during the discussion.

## **MAJOR AICPA CONFERENCES FOLLOWING ANNUAL MEETING**

### **Executive Developments in Microcomputer Technology**

#### **AICPA Microcomputer Conference**

**Hyatt Regency Hotel • Atlanta, Georgia • October 16-17, 1984**

The growing presence of the microcomputer has had a material impact on CPAs both in public practice and in industry. While this conference will deal with microcomputers, it is specifically directed towards senior and managing partners in public practice and senior industry executives. It will concentrate on those aspects of hardware, software and applications that should be known by the people who must set policies and make decisions regarding the use of microcomputers in their organizations.

### **Small Business Consulting**

#### **AICPA MAS Conference**

**Hyatt Regency Hotel • Atlanta, Georgia • October 18, 1984**

Many CPAs serve as a general business adviser to their small business clients. Practitioners do not necessarily classify these services as MAS, but that is not important. What is important is an understanding of the opportunities, pitfalls and techniques (including microcomputer applications) that will enhance professionalism when such services are rendered. This conference will cover personal financial planning, litigation support and business valuation services, which are increasingly being offered by CPAs. MAS engagement techniques useful in providing these and other services will also be addressed.

## Statement on Computer Processing Effects Set

The Institute's auditing standards board has issued a statement on auditing standards (SAS no. 48) entitled *The Effects of Computer Processing on the Examination of Financial Statements*. Generally similar to the draft exposed last fall, the SAS amends existing statements and supersedes SAS no. 3, *The Effects of EDP on the Auditor's Study and Evaluation of Internal Control*.

The board believes that auditors consider the methods of data processing, including computer usage, in essentially the same way and at the same time they consider other significant factors that may affect their examination of financial statements. Therefore, the board believes that guidance concerning the effects of computer processing on audits of financial statements be integrated with existing guidance rather than presented separately. The SAS reflects this approach.

By eliminating the inconsistent language in SAS no. 3, the statement also makes clear that the auditor's obligation to perform a minimum study and evaluation of internal accounting control, as discussed in SAS no. 43, is the same for accounting systems using a computer for processing accounting data as for manual accounting systems.

Copies of the statement may be obtained from the AICPA order department at \$1.60 each (Product no. 060482).

## AICPA Insurance Refund Paid

The 1984 refund from the AICPA Insurance Trust is being paid this month—over \$35 million—which is a record high. Refund rates applicable to contributions for life insurance under the CPA Plan and Group Insurance Plan during the twelve-month period ending September 30, 1983, and those under the Long Term Disability Income Plan for the twelve-month period ending December 31, 1983, are as follows:

### CPA PLAN

AGE CLASSIFICATION	PAYMENT BASIS ELECTED AND CONTRIBUTIONS PAID		
	ANNUAL *	SEMIANNUAL *	MONTHLY
Under 40	81%	76%	71%
40-59	66	61	56
60-69	41	36	31
70 and over	20	15	10

### GROUP INSURANCE PLAN

Eligible firms under the Group Insurance Plan are receiving a 53% refund for those without dependent coverage and 49% with dependent coverage.

### LONG-TERM DISABILITY PLAN

For eligible individuals paying on an annual basis the refund is 35%\*; semiannual basis is 30%\*.

Life insurance in force under the Institute's plans is over \$18 billion. Presently there are more than 100,000 participants in the CPA Plan, about 75,000 persons are covered under the Group Life Insurance Plan and more than 30,000 CPAs are insured through the Long Term Disability Plan.

Invitations to start or increase participation in the life insurance plans will be mailed next month. Material on the disability plan is scheduled for November mailing. For information contact the plan agent: Rollins Burdick Hunter Co., 605 Third Avenue, New York, N.Y. 10158 (800/223-7473; in New York call collect 212/661-9000).

\*Refund percentages include allowances of 10 percent for those on an annual payment basis and 5 percent for those on the semiannual payment basis.

## Wyatt Appointed to FASB

Arthur R. Wyatt, senior partner in Arthur Andersen & Co., has been appointed to a five-year term as a member of the Financial Accounting Standards Board, effective January 1, 1985. Mr. Wyatt is a member of the management accounting practices committee of the National Association of Accountants and a former chairman of the AICPA's accounting standards executive committee. He is a former AICPA vice president and currently serves on the Institute's board of directors.

**Regional Meetings  
Set on GASB  
Project Agenda**

The recently-formed Governmental Accounting Standards Board will hold (see June 25 Letter) four regional meetings in connection with establishing its project agenda. The meetings will be July 31 in Chicago; August 2 in Sacramento; August 7 in New York and August 9 in Atlanta. For further information, contact Susan Peters at the GASB, High Ridge Park, Stamford, Conn. 06905.

**Washington Briefs**

**Treasury Holds First of Tax Reform Hearings**—No single “preconceived idea” has yet been adopted as the recommendation for broad tax reform that the Treasury Department has been directed to submit to the President this December, according to Treasury Department Deputy Secretary R.T. McNamar. Speaking at the first of seven public hearings held last month to solicit opinions on broad tax reform, McNamar said he did not commit the agency to any one approach other than the general goals of broadening the tax base and lowering rates.

**Warning on Misdirecting FTD Forms**—The IRS recently warned that penalties for misdirecting Federal Tax Deposit forms will be applied beginning this month. In IR-84-69, the IRS said that the five percent penalty applies for failing to make required tax deposits in an authorized government depository or for making the deposits late.

**Supreme Court Decides on Notifying Probe Targets**—Last month, the U.S. Supreme Court reversed a controversial appeals court ruling entitling targets of SEC investigations to receive notice of administrative subpoenas issued to third parties (SEC v. O'Brien, No. 83-751). In the unanimous court decision, Justice Thurgood Marshall said that such a requirement would “substantially increase the ability of persons who have something to hide to impede legitimate investigations by the SEC.” In light of this decision, the SEC said it “will resume the use of normal procedures and will no longer make subpoenas available for public review.”

**SEC's Small Business Forum Set**—Accountants and others knowledgeable in small business issues are being sought by the SEC to participate in the Third Annual Government-Business Forum on Small Business Capital Formation, to be held September 12-14 in Washington, D.C. The SEC said that its goal is to generate legislative and regulatory recommendations for Congress and government agencies to improve the small business capital formation process. For further information, contact Mary M. Jackley at the SEC (202/272-2644) or write to 1984 Small Business Forum, SEC, 450 Fifth Street, N.W., Stop 3-12, Washington, D.C. 20549.

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# The CPA Letter

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**Board Statement  
on Rule 302  
Enforcement**

In the August 1983 CPA Letter, the board of directors announced suspension of enforcement of ethics Rule 302—Contingent Fees—which provides:

Professional services shall not be offered or rendered under an arrangement whereby no fee will be charged unless a specified finding or result is attained, or where the fee is otherwise contingent upon the findings or results of such services. However, a member's fees may vary depending, for example, on the complexity of the service rendered.

Fees are not regarded as being contingent if fixed by courts or other public authorities or, in tax matters, if determined based on the results of judicial proceedings or the findings of governmental agencies.

The suspension of enforcement of Rule 302 contemplated that council would authorize a mail ballot of the membership recommended by the board of directors. The ballot would have sought amendment of the rule to limit its application to independence-related services. At its May 1984 meeting, council declined to authorize such a mail ballot. Accordingly, as indicated in the announcement of suspension, since Rule 302 is not to be amended those case investigations that were halted after September 1983 will be resumed and any complaints received since that date will be processed in the usual way.

In a related matter, council instructed the ethics committee not to issue proposed interpretations of Rule 503 which prohibits acceptance of a commission for referral of goods or services to a client. The interpretations would have permitted the acceptance of commissions for such referrals to clients provided that the product or service was unrelated to the professional expertise of the member.

**McCloy Awarded  
AICPA Medal  
of Honor**

John J. McCloy, retiring chairman of the Public Oversight Board, was awarded the AICPA's Medal of Honor at the Institute's board of directors' meeting last month. Only the second time that the Institute has presented the award, the Medal of Honor acknowledges Mr. McCloy's support of and contributions to the accounting profession over the past six years as POB chairman.

Mr. McCloy served as founding chairman of the POB, said AICPA President Philip B. Chenok, noting that "he played an active role establishing policies and procedures, monitoring progress, examining reports on reviews of firms, reviewing investigative results, conferring with the commissioners and staff of the Securities and Exchange Commission, and lending his vision and objectivity to Institute leaders."

Currently a partner with the law firm of Milbank, Tweed, Hadley & McCloy, Mr. McCloy formerly was chairman of Chase Manhattan Bank. He, in addition, was the assistant secretary of war during World War II, high commissioner to Germany and president of the World Bank.

In his remarks, Mr. McCloy said that as POB chairman, he had the opportunity "to observe and contribute to the unfolding of a real achievement by the accounting profession—the establishment of a voluntary program of self-regulation of accounting firms." This program, he added, is "unprecedented" because no other profession "has imposed upon itself such a thoroughgoing, nationwide program of periodic review by peers intended to bring about higher quality performance."

**GASB Issues  
First Statement**

As expected (see June 25 Letter), the newly formed Governmental Accounting Standards Board recently issued Statement no. 1 of its Governmental Accounting Standards Series entitled *Authoritative Status of NCGA Pronouncements and AICPA Industry Guide*. This statement sets forth the authoritative status of the National Council of Governmental Accounting statements and interpretations as well as the guidance contained in the AICPA Industry Guide, *Audits of State and Local Governmental Units*.

According to GASB Chairman James F. Antonio, the statement also identifies pronouncements concerning pension accounting and financial reporting that the GASB "considers to be sources of acceptable principles for public employee retirement systems and state and local government employers, pending issuance of a GASB statement or statements on the subject."

Antonio added that the GASB placed pension accounting and financial reporting on its agenda as a top priority subject. The GASB is presently holding four regional meetings in connection with establishing its project agenda.

**FASB Issues  
Proposed Guidance  
on Effects of Tax Act**

The Financial Accounting Standards Board recently proposed guidance on accounting for the effects of the newly enacted tax act on Domestic International Sales Corporations (DISCs) and stock life insurance companies. The guidance is in the form of two proposed FASB Technical Bulletins—no. 84-b, *Accounting for the Effects of the Tax Reform Act of 1984 on Deferred Income Taxes Relating to Domestic International Sales Corporations* and no. 84-c, *Accounting for the Effects of the Tax Reform Act of 1984 on Deferred Income Taxes of Stock Life Insurance Enterprises*.

"The proposed technical bulletins provide similar accounting guidance for two different issues raised by the act that have similar effects," said FASB Practice Fellow Steven P. Johnson. Both proposals would clarify that deferred income tax balances relating to taxes that are effectively forgiven by the new tax act should be adjusted for the effects of the act. The effects would be recognized in the first interim or annual statements issued after July 18, 1984 by restating any prior interim periods of the current fiscal year. The cumulative effect relating to prior years would be recognized in the first interim period of the current fiscal year.

Comments on the drafts are due by August 22. Copies of the drafts are available from the FASB, Order Department, High Ridge Park, Stamford, Conn. 06905.

The AICPA's accounting standards executive committee recently approved an issues paper on accounting for income taxes of stock life insurance companies that describes the effects of the new tax act. The paper will be issued shortly.

**Proposed Guide  
on Real Estate  
Appraisal Data Set**

A proposed guide, *Guide on the Use of Real Estate Appraisal Information*, which provides guidance on the appraisal process and the uses of real estate appraisal information, was recently exposed for comment. The proposal discusses the valuation concepts used in the accounting and appraisal literature, the methods used by appraisers to value real estate assets, the selection and evaluation of a real estate appraiser, the auditor's consideration of valuation data and reporting considerations. Comments on the draft are due by October 31.

Copies of the proposal may be obtained from the AICPA order department (Product no. G00261).

## **IFAC Issues Education Guideline...**

The International Federation of Accountants recently issued International Education Guideline (IEG) 4 entitled *The Core of Knowledge—Professional Subjects*, providing detailed guidance on the curriculum for the core of professional subjects that all accountants should have. Subjects covered include financial and management accounting, information systems and EDP, auditing, taxation and business finance.

"IEG 4 contains descriptions of only the professional subjects. An additional guideline on the supportive subjects will be developed at a later date," said Bansi Mehta, chairman of the IFAC education committee. The curriculum set out in the guideline "is a statement of the minimum requirements and is subject to expansion or variation by individual member bodies to meet their own needs or the changing needs of society," he added.

The statement is expected to be available shortly from the AICPA order department, at \$1.75 each (Product no. 019810).

IFAC was established in 1977 by representatives of more than 50 nations, now 65, with the broad objective of developing a coordinated international accountancy profession with harmonized standards. To further this, the group initiates and guides efforts to achieve international technical, ethical and educational guidelines for the accounting profession and reciprocal recognition for qualifications for practice.

## **... And Exposes Draft on Fees and Commissions**

IFAC also recently issued an exposure draft of a proposed statement of guidance entitled *Charging of Professional Fees and Payment and Receipt of Commissions*, which was prepared by its ethics committee. The proposal outlines the fundamental principles to be observed when developing ethical requirements related to professional fees and commissions.

Payment or receipt of a commission by accountants could impair their objectivity and independence and therefore, accountants should not pay a commission to obtain a client nor accept a commission for referral of a client to a third party.

Comments on the draft should be sent to Tom Kelley at the AICPA by October 31. A limited number of copies of the proposal are available from the AICPA order department.

### **NOTICE OF AICPA PUBLIC MEETINGS**

#### **Accounting Standards**

An open meeting of the accounting standards executive committee will be held in the AICPA offices in New York on September 24-26 starting at 8:30 a.m. each day. The agenda, which has not been set yet, will be reported by the meetings telephone information service.

The next scheduled meeting is October 31-November 2 in Washington, D.C.

#### **Accounting and Review Services**

The accounting and review services committee will hold an open meeting on September 6-7 at the Westin Hotel-Copley Place in Boston starting at 9:00 a.m. each day. The agenda has not been set yet, but will be reported by the meetings telephone information service.

The next scheduled meeting is October 24-25 at the AICPA in New York.

#### **Auditing Standards**

An open meeting of the auditing standards board will be held September 5-6 at Chicago's Park Hyatt Hotel, starting at 8:30 a.m. each day. The agenda will be reported by the meetings telephone information service.

The next meeting is tentatively scheduled for October 23-25 at the AICPA in New York.

**Agendas and changes will be reported by the meetings telephone information service.  
The number is 212/575-5694.**

## Washington Briefs

**Reagan Signs Tax Bill**—On July 18, as expected, President Reagan signed into law H.R. 4170, known as the Deficit-Reduction Act of 1984, which is now Public Law 98-369. One of the purposes of the act is to cut nearly 10 percent of the expected \$600 billion in cumulative federal deficits expected through the end of 1987.

Also, the chairman of the House subcommittee on commerce, consumer and monetary affairs recently advised the Treasury Department that he will closely watch implementation of a provision in the new tax act which repealed the 30 percent withholding tax on interest paid to nonresident aliens from certain U.S. debt investment. Congressman Doug Barnard (D-Ga.) warned that the subcommittee will hold hearings if the bill's provision is not implemented so as to assure that Treasury and corporate debt will be purchased only by legitimate foreign individuals.

**Chapoton Resigns as Treasury Aide**—John Chapoton resigned as assistant Treasury secretary for tax policy, effective August 1, to return to private practice. Ronald Pearlman, deputy assistant secretary for tax policy, has succeeded Chapoton as the "acting" assistant secretary, according to the Treasury Department.

**Hearing Set on Generation-Skipping Transfer Tax**—A public hearing has been set for September 13 on proposals to simplify the generation-skipping transfer tax imposed under the Internal Revenue Code's chapter 13. The focus will be a Treasury Department proposal to exclude from the tax \$1 million per transferor and to tax such transfers above that amount at a flat rate—80 percent of the highest estate tax rate.

**False Withholding Information Penalty Clarified**—In T.D. 7963, the IRS discusses the \$500 penalty applicable to individuals who falsify withholding allowance information. The regulation provides guidance on the penalty's application in regard to the changes made by the 1981 Tax Act.

**SEC Accountant Positions Open**—The SEC's division of corporation finance is seeking applicants for staff accountant positions at the GS-12 (\$30,402) and GS-13 (\$36,162) levels. Duties include reviewing Form 10-K's and registration statements for compliance with SEC disclosure requirements.

Applicants must be CPAs with at least three years of accounting experience, the majority with a firm with emphasis on corporate reporting. Resumes can be sent to Ms. Patterson, Office of Personnel, SEC, 450 Fifth St., N.W., Washington, D.C. 20549.

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## The CPA Letter

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# The CPA Letter

**A Semimonthly News Report Published by the AICPA**

## **Highlights of AcSEC Meeting**

At its meeting last month the Institute's accounting standards executive committee discussed several documents and approved an issues paper to be sent to the FASB.

*Identification and Discussion of Certain Financial Accounting and Reporting Issues Concerning Lifo Inventories*—This issues paper was approved to be sent to the FASB, subject to AcSEC's negative clearance of a revised draft. The paper identifies and discusses more than 50 issues relating to Lifo reporting and disclosures, such as pooling arrangements, the effects of Lifo inventory liquidations and interim reporting. Copies of the paper are expected to be available in early November from the AICPA order department.

*Accounting for Estimated Credit Losses of Financial Institutions*—This paper addresses issues on the measurement and recognition of estimated credit losses by financial institutions. The paper will be revised for discussion at a later AcSEC meeting.

*Accounting for Annuities, Universal Life Insurance and Related Products*—This paper addresses issues on accounting for new types of insurance products, including universal life insurance. The paper will be discussed further at the AcSEC meeting later this month.

Also approved for publication, subject to approval by the auditing standards board, was a notice to practitioners to appear in a future issue of the *Letter* on accounting for real estate acquisition, development and construction financing arrangements. The notice is planned to clarify certain questions raised on a notice published in the November 1983 *Journal of Accountancy*.

AcSEC also approved for publication in a forthcoming *Letter* a notice to practitioners on loan origination fee recognition by savings and loan associations. The notice is intended to clarify a notice published in the March 10, 1980 *Letter*.

## **First AICPA Member Survey Shows Broad Interests**

Data from a recent survey representing the AICPA's first profile of its membership indicate members have diverse practice interests and multi-industry specialization. Some 214,000 questionnaires were sent and some 190,000 responses received, representing an unusually high response rate. A key reason for the survey was to help the Institute update member services and possibly design new areas.

On average, according to the survey, members have a direct interest in five areas: corporate federal tax; financial reporting and individual federal tax (the top three); followed by an almost equal direct interest in auditing and compilation and review.

As to job functions, the largest group in AICPA membership is in public accounting (47 percent); and, of these, 29 percent are partners or sole practitioners and 18 percent hold staff positions. Members in industry are 35 percent of the total respondents; and, of these, 29 percent are involved in some financial or accounting aspect of a business.

The average member indicated specialization or interest in 3.5 different industries. The three highest-ranking interests were services, finance and retail trade.

For further information on the survey results, see a forthcoming issue of the *Journal of Accountancy*.



## Upcoming AICPA Conferences

**Federal Taxes**—The 1984 AICPA National Conference on Federal Taxes will be held October 22-23 at the Capital Hilton in Washington, D.C. Topics include 1984 in perspective, focusing on the new tax act; personal financial planning; coping with an IRS audit and closely held corporations. Speakers include Congressman Barber B. Conable, Jr. (R-N.Y.). Price is \$345 (recommended CPA credit—16 hours).

**Governmental Training**—The 1984 AICPA National Governmental Training Program, co-sponsored by the Society of Louisiana CPAs, will be held October 22-24 at the Hotel Iberville in New Orleans. Designed for practitioners with at least two years' experience in governmental auditing, the program will focus on the concepts and techniques of governmental accounting, auditing and financial reporting practices and procedures. Fee is \$495 (recommended CPE credit—26 hours).

**Compensation Planning**—The 1984 AICPA Conference on Tax-Advantaged Compensation Planning will be held November 1-2 at the Hyatt Orlando in Orlando, Florida. Co-sponsored with the Florida Institute of CPAs, the conference will focus on current planning opportunities and techniques for deferring taxes and compensating highly paid executives and the self-employed. Price is \$345 (recommended CPE credit—16 hours).

For information on these conferences, call the CPE Hotline (800/242-7269 which spells 800/AICPANY). In New York State call 212/575-5696.

## Recent AICPA Products

The private companies practice section of the AICPA's division for CPA firms has issued a revised 1984 edition of the PCPS *Peer Review Manual*. It contains the PCPS organization document, which includes the section's membership requirements, standards for peer reviews and administrative and other procedures. Copies of the revised manual have been mailed to all PCPS member firms. Additional copies are available from the AICPA order department at \$5 each (Product no. 018042).

**Financial Report Survey 29: Updated Illustrations of Departures from the Auditor's Standard Report**—This survey deals with circumstances in which the auditor has determined that there is a need for a departure from the auditor's standard report and the selection of appropriate modifying language. The survey presents 117 auditors' reports from recently published annual reports. Price is \$9.50; \$7.60 to members (Product no. 037880). Available later this month from the AICPA order department.

A short film or videotape explaining management consulting as a career path for CPAs is now available. The 15-minute program, *The CPA and Management Consulting—An Introduction to MAS*, focuses on various aspects involved in MAS consultations and engagements and provides examples of management advisory services. For information, contact Monte Kaplan at the AICPA (212/575-7057).

The latest program in the CPA Video Journal series is no. 36, *Special Report: 1984 Small Business National Issues Conference*, which provides an overview of the conference held in June (see June 11 Letter). For further information, contact Teresa Zimmerer at the AICPA (212/575-5573).

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The CPA Letter (ISSN 0094-792x), September 10, 1984. Published semimonthly, except July and August when monthly. Publication and editorial office: 1211 Avenue of the Americas, New York, N.Y. 10036—8775. Second-class postage paid at New York, N.Y. and at additional mailing offices. Copyright © 1984 American Institute of Certified Public Accountants, Inc. Postmaster: Send address changes to 1211 Avenue of the Americas, New York, N.Y. 10036—8775.

Executive Editor: Roderic A. Parnell

Editor: Stephen H. Collins

**FASB Issues Three Documents; FAF Trustee Named**

The Financial Accounting Standards Board recently issued the following:

- ☐ SFAS no. 80, *Accounting for Futures Contracts*, requires companies to recognize gains or losses in income when a change occurs in the market value of a futures contract, unless the contract qualifies as a hedge. The statement is substantially the same as the draft exposed last July, said William C. Rupert, FASB practice fellow, "except with regard to the exposure draft's proposed provisions on hedge effectiveness and risk assessment."
- ☐ An exposure draft of a proposed statement would specify the accounting for computer software that is to be sold, leased or otherwise marketed. The proposal would require companies to classify the costs of planning, designing and establishing the technological feasibility of a computer software product as research and development costs and to charge those costs to expense when incurred. Comments are due by November 30.
- ☐ Interpretation no. 38, *Determining the Measurement Date for Stock Option, Purchase and Award Plans Involving Junior Stock*, is substantially the same as the draft exposed last April (see May 14 Letter) and says that companies selling junior stock to employees must recognize compensation expense when the requirements for conversion into common stock are met.

Copies of the above documents are available from the FASB Order Department, High Ridge Park, Stamford, Conn. 06905.

In another matter, John F. Ruffle, executive vice president of Morgan Guaranty Trust Company of New York, was recently named as a trustee of the Financial Accounting Foundation, effective September 1. Nominated by the Financial Executives Institute, he replaces Warren J. Robertson, who is retiring.

**Statement on Letters for Underwriters Set**

The Institute's auditing standards board will shortly issue a statement on auditing standards (SAS no. 49) entitled *Letters for Underwriters*. Generally similar to the draft exposed last fall, the SAS consists solely of amendments to SAS no. 38, also entitled *Letters for Underwriters*, made in response to revisions in SEC financial reporting requirements and other developments in auditing and reporting. Key changes involve guidance on the following:

- ☐ Comfort letters issued in a shelf registration and requests for comfort letters before the managing underwriter has been selected.
- ☐ Condensed description of the accountant's procedures and findings.

Other changes include guidance regarding the accountant's comments on compliance with SEC rules and requirements, pro forma financial information and the accountant's statement on independence.

Copies of the statement are expected to be available later this month from the AICPA order department at \$1.60 each (Product no. 060497).

**Guide on Service Center-Produced Records Exposed**

A proposed audit and accounting guide entitled *Audits of Service Center-Produced Records* was exposed for comment recently. The draft is a proposed revision to the 1974 audit guide, *Audits of Service Center-Produced Records*, which it would supersede. The proposed revision was developed to incorporate the general guidance in SAS no. 44, *Special-Purpose Reports on Internal Accounting Control at Service Organizations*, and other auditing pronouncements issued since 1974.

The proposal provides guidance to auditors of organizations using services provided by EDP service centers and auditors who are engaged to report on certain aspects of the internal accounting control system relating to accounting systems processed by EDP service centers. Specifically discussed are the effects of a client's use of such a service center on the auditor's study and evaluation of internal control, reporting on reviews of EDP service centers and use of reports on internal control at the centers.

Comments are due by December 31. Copies of the draft may be obtained from the AICPA order department (Product no. G00280).

### **Future Issues Committee Report to Be Issued**

The Institute will shortly issue the report of the future issues committee entitled *Major Issues for the CPA Profession and the AICPA*. In the report, the committee identifies 14 major issues confronting the profession today and presents recommendations to establish a formal strategic planning process and a trend-monitoring system within the Institute. The major issues "consist of matters of sufficient concern to the profession to require attention and resolution," says the committee. The 14 major issues are

- ☐ Expansion of services and products.
- ☐ Changes in the nature and extent of competition in the profession.
- ☐ Widespread computerization and automation of business operations.
- ☐ Litigation and legal liability.
- ☐ Increased specialization of accountants.
- ☐ Accounting standards overload.
- ☐ The role of self-regulation.
- ☐ Upward mobility of women.
- ☐ Improving the quality of practice of CPAs.
- ☐ Major reform of the federal income tax code.
- ☐ Changes in the composition of Institute membership and potential membership.
- ☐ Independence and objectivity.
- ☐ Diversity in CPA qualifications and performance requirements.
- ☐ Mission, goals and objectives of the Institute.

A preliminary analysis of each of the issues, except the last one, is included in the report. An analysis of that issue is not presented because the board previously established the AICPA mission committee, a special committee to make a comprehensive study of these areas.

The issues cited, notes the report, "are an important starting point for the accounting profession to become more future oriented." A notice to readers indicating steps taken by the board of directors to address the major issues and implement the recommendations in the report is also included.

Copies of the report will be mailed shortly to all practice units. Additional copies of the report will be available later this month from the AICPA order department (Product no. 029263; price to be determined).

### **AICPA Gives Views on Flat Tax Proposals In Testimony**

Replacing the current federal income tax with a flat-rate system would not simplify the tax code, nor raise federal taxes, nor erase perceived inequities in the present code. So said Albert B. Ellentuck, chairman of the Institute's tax division executive committee, who last month presented testimony and delivered an AICPA issues paper on the flat-rate tax and alternative tax systems to the Senate Finance Committee.

A flat tax cannot be both fair and simple, Ellentuck said, adding that those proposals before Congress "generally dispense with progressive rates in the interest of simplicity." He said: "We are astonished that so manifest a benchmark of fairness as taxation by ability-to-pay is being seriously proposed for the scrap heap."

Ellentuck said that the contention that a new broad-based tax system is needed to capture taxes from those failing to pay their "fair share" is faulty because the present alternative minimum tax targets those taxpayers and has been effective.

Instead of a radical change in U.S. tax structure, the AICPA favors a more equitable application of current laws. Ellentuck recommended a moratorium on major tax legislation and the creation of a national commission on tax simplification.

The Senate Finance Committee began a series of hearings last month on tax-reform proposals that is scheduled to continue September 11 and 20, according to Senator Robert Dole (R-Kan.), committee chairman. "Obviously, we are not going to do anything this year. We are trying to set the stage for a major assault on the complexities of the system," said Dole.

## **IFAC Issues Two Statements**

At its recent meeting in Stockholm, the international auditing practices committee of the International Federation of Accountants approved issuance of the following international auditing guidelines:

- ☐ IAG 16, *Computer-Assisted Audit Techniques*, provides guidance to auditors when using techniques such as audit software and test data. It outlines circumstances in which such techniques may be used, factors to consider in determining whether to use these techniques and the major considerations in their application.
- ☐ IAG 17, *Related Parties*, provides guidance on the procedures to be considered in obtaining sufficient appropriate audit evidence concerning the existence and disclosure of transactions with related parties. The statement is premised on definitions and disclosure requirements set out in IAS 24, *Related Party Disclosures*, issued recently by the International Accounting Standards Committee.

In addition, the committee approved for exposure in October ED 23, *Going Concerns*, which proposes guidance for circumstances in which a question arises as to an entity's ability to continue as a going concern. Comments will be open through next March and should be sent to the AICPA's auditing standards division.

The two statements and the draft are expected to be available shortly from the AICPA order department, at prices to be determined.

## **Life Insurance Entrance Date Is October 1**

Material on the CPA Plan and Group Insurance Plan is being mailed this month for the next entrance date of October 1 for new or increased coverage.

Up to \$300,000 of term life insurance plus an equal amount of accidental death and dismemberment coverage is available under the CPA Plan and similar benefits are provided under the Group Insurance Plan which has maximum limits of \$150,000, \$100,000 or \$50,000 under the three available schedules. Eligibility for one plan has no effect on eligibility for the other. For additional information contact the plan agent: Rollins Burdick Hunter Co., 605 Third Avenue, New York, New York 10158 (telephone 800/221-4722; in New York, call collect 212/661-9000).

## **Carey Scholarship Awarded**

The John L. Carey Scholarship for 1984-85 has been awarded to Nancy Paige Stack of Morris Plains, New Jersey. The annual \$4,000 scholarship, named for the AICPA's former chief staff executive, is granted to a Yale University senior who plans to do graduate work in the field of accounting with the intention of pursuing a career in the profession.

Ms. Stack, a 1984 graduate, has been accepted into New York University's Master of Science in Accounting program and will be employed by Peat Marwick. While at Yale, she was business manager and a member of the board of directors for Yale Banner Publications, which publishes the yearbook and student directory.

### **NOTICE OF AICPA PUBLIC MEETINGS**

**Annual Meeting**—Notice is hereby given to the membership pursuant to Sections 5.1 and 5.1.3 of the bylaws that the regular annual meeting of the Institute will convene at 9:00 a.m. on October 15, 1984, in the Hyatt Regency Hotel, Atlanta, Georgia, to hear an address by Chairman B.Z. Lee and consider other business brought before the meeting. The council meeting will convene at 9:00 a.m. on October 13, 1984, in the Atlanta Hilton Hotel.

Donald J. Schneeman, Secretary  
New York, N.Y., August 31, 1984

**Federal Taxation**—An open meeting of the federal taxation executive committee will be held in Washington, D.C., on October 8 and 9 at the AICPA offices, starting at 9:00 a.m. each day. The agenda will be reported by the meetings information telephone service at 212/575-5694.

The next meeting is scheduled for December 9 and 13 in Orlando, Florida.

**Short Takes:  
Washington and  
Elsewhere**

**Insider Trading Bill Signed**—On August 10, President Reagan signed into law the “Insider Trading Sanctions Act of 1984” (P.L. 98-376), which according to the President, “makes several important changes” to the federal law governing insider trading in securities. Among other things, the new legislation strengthens penalties for violating federal securities fraud law and authorizes the SEC to seek a new civil penalty against persons violating existing laws on securities purchases or sales.

**Sack Replaces Perry**—Earlier this month Robert J. Sack became chief accountant in the SEC’s division of enforcement, succeeding L. Glenn Perry, who is joining Peat, Marwick, Mitchell & Co. as a partner in New York. Sack has been with Touche Ross & Co. since 1958, most recently as director of audit operations for the firm’s Northeast Ohio office.

**Focus on Employee Benefits**—“Further chipping away at the tax base can and will produce serious consequences.” So said IRS Commissioner Roscoe L. Egger, Jr., in a recent speech. Citing cafeteria plans, Egger said that while proposed regulations in this area may need improving, certain basic conclusions will not change. “We at the IRS are translators of law, not creators of social policy; while we hope to minimize disruption of people’s lives and financial planning, we cannot let the numbers of employees affected by a law change dictate how we write regulations to carry out provisions of the law,” he added.

**USC Accounting Dean Named AAA President**—The American Accounting Association recently named Doyle Z. Williams, dean of the University of Southern California School of Accounting, as its president.

**Warning on Incomplete Returns**—The IRS recently warned that a self-employed taxpayer who fails to show the nature and source of income on his or her tax return may be penalized even if the full amount of net income is shown and the appropriate tax is paid.

**Rules on Tax Shelter Registrations Issued**—The IRS (in IR-84-88) has issued temporary regulations explaining, in question and answer form, tax shelter registration requirements and penalty provisions added by the recently enacted tax bill. The regulations deal with investments subject to securities regulation, persons required to register a tax shelter and Form 8264 filing requirements. Beginning September 1, tax shelter organizers must register tax shelters in which interests are being offered for sale.

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## **The CPA Letter**

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# The CPA Letter

**A Semimonthly News Report Published by the AICPA**

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## **Board of Directors Highlights**

At its meeting on September 11-12, the AICPA's board of directors

- ☐ Authorized publication of the report of the special committee appointed to review the work of the SEC practice section of the division for CPA firms. Also expressed its support for efforts of the executive committee to promote greater professionalism within member firms of the section.
- ☐ Approved an agenda for the fall council meeting which includes reconsideration of the decision by council at its spring meeting not to seek a vote of the membership on the adoption of a contingent fee rule limited to independence-related engagements. The Colorado Society of CPAs has asked that the matter be reconsidered. At the request of the New York State Society the agenda also will include discussion of the suggested interpretation of the rule on commissions that would permit commissions to be accepted provided the economic benefit is passed on to the client.
- ☐ Adopted guidelines for responding to requests from CPA societies for financial assistance in meeting costs of legislative attacks on their accountancy laws.
- ☐ Authorized publication of a joint AICPA/NASBA model accountancy bill to take the place of the separate bills previously issued by each organization.
- ☐ Affirmed the appointment of Melvin Laird to the SEC practice section's Public Oversight Board (see below).
- ☐ Asked that the views of the CPE division and the state legislation committee be sought in connection with a report being developed by the special committee on mandatory CPE.
- ☐ Designated Baltimore as the site of the 1990 AICPA annual meeting.

## **AACSB Restructures Standards Committee**

The American Assembly of Collegiate Schools of Business has overwhelmingly approved a proposal to restructure its standards committee.

The new structure, approved by mail ballot, consists of a single standards committee composed of a chairman and two subcommittees of equal size—one for business administration and one for accounting. "This procedure will help to assure that the business and accounting accreditation standards will remain harmonious and coordinated," said James H. MacNeill, AICPA director-relations with educators.

The single committee replaces two separate committees—one for business accreditation and the other for accounting accreditation. This move clears the way for addressing other important matters relating to the accreditation of accounting programs, according to MacNeill.

## **Laird Named to POB**

Melvin R. Laird, former U.S. secretary of defense, has been named to the Public Oversight Board. The POB monitors the SEC practice section of the Institute's division for CPA firms.

Mr. Laird headed the Defense Department from 1969 to 1972 and then became presidential adviser on domestic affairs until 1974. More recently, he has been a director of several corporations, charitable organizations and educational institutions.

## **AICPA Conferences Scheduled**

Record attendance is expected at the AICPA's 97th annual meeting to be held October 14-16 in Atlanta. Interest, in part, is due to the addition of the *Accountants World*, an exposition of accounting-oriented products and services. Registration is still open.

*National Banking*—The 1984 AICPA National Conference on Banking is set for November 15-16 at the Hyatt Regency Crystal City in Washington, D.C. The two-day program will focus on current accounting and auditing issues facing banks and bank holding companies, particularly the impact which competition and supervisory agency regulations are having on bank operations. Fee is \$350 (recommended CPE credit—15 hours).

For information on the above meetings, contact the AICPA meetings department (212/575-6451).

*Computers*—The 20th Annual AICPA Computer Conference is slated for November 28-30 at the Registry Hotel in Dallas. Co-sponsored by the Texas Society of CPAs, the conference consists of four tracks—both introductory and advanced computer auditing and both introductory and advanced computer consulting. Price is \$495 (recommended CPE credit—19 hours).

*Firm Administration*—The 1984 AICPA Firm Administrators Conference will be held in two locations—the Palmer House Hotel in Chicago on November 15-16 and the Hyatt Regency Atlanta on December 6-7. The first program by the AICPA in this area, the conference is geared for those who deal with firm administrative duties. Price is \$295 (recommended CPE credit—16 hours).

*Financial Planning*—The Institute's Personal Financial Planning Conferences will also be held in two locations—December 3-4 at the Las Vegas Hilton and January 7-8, 1985, at the Caribe Hilton in San Juan. The two-day conference focuses on the various approaches and techniques involved in personal financial planning. Price is \$345 (recommended CPE credit—16 hours).

For information on these conferences, call the CPE Hotline (800/242-7269 which spells 800/AICPANY). In New York State call 212/575-5696.

## **IASC Approves Draft on Accounting for Investments**

The board of the International Accounting Standards Committee has approved an exposure draft, E26, *Accounting for Investments*, to be published October 1. The draft deals with all investments, other than in subsidiaries, joint ventures and associates, and distinguishes between long-term and current investments. Current investments are required to be carried on the balance sheet either at the lower of cost and market value or at market value. Comments on the draft are due March 31.

## **Minority Scholarships Announced**

The Institute's minority and equal opportunity committee recently announced the awarding of 301 scholarships for the 1984-85 academic year. The students, from 145 colleges and universities, received scholarships totaling \$184,750. Included this year were 25 Arthur Andersen-AICPA scholarships totaling \$17,500; seven RCA-AICPA scholarship awards totaling \$5,250 and three Clarence and Addie Davis-AICPA scholarships totaling \$2,000.

For further information, contact Sharon Donahue at the AICPA.

## **Accounting Literature Awards Announced**

The first joint AAA/AICPA Notable Contributions to Accounting Literature Award was presented last month at the American Accounting Association's annual meeting. Selected by the Institute's accounting literature awards committee from nominations by an AAA committee as in the past, the award went to Professor Richard Leftwich, University of Chicago Graduate School of Business, for "Evidence of the Impact of Mandatory Changes in Accounting Principles on Corporate Loan Agreements," *Journal of Accounting and Economics* (March 1981).

Articles and books published in the last five years are eligible for this award. The award, which marks the program's 18th year, was previously known as the AICPA Notable Contributions to Accounting Literature Award.

Also, Dennis R. Beresford, Lawrence C. Best and Joseph V. Weber have won the 1984 *Journal of Accountancy* Literary Award for their article, "Accounting for Income Taxes: Change Is Coming," published in the January 1984 issue. Beresford, former chairman of the Institute's accounting standards executive committee, is partner in charge of accounting standards at Ernst & Whinney. Best and Weber are also partners at Ernst & Whinney.

The award, in honor of John Lawler, former *Journal* editor and AICPA senior vice president, is given for the best article published in the *Journal* during the 12 months ending June 1984, as determined by the magazine's editorial advisers.

## **NOTICES TO PRACTITIONERS**

### **Deposit Float**

The AICPA's accounting standards executive committee (AcSEC) has considered whether banks should record deposit float. Deposit float consists of checks deposited by customers that are in the process of collection and are currently not available for withdrawal. Beginning in mid-1983, many major banks questioned the historical practice of recording such checks as assets and liabilities.

After a comprehensive discussion of the issues, AcSEC concluded that it is conceptually inappropriate to record deposits based on collections; that is, AcSEC concluded that banks should continue to record deposit float as assets and liabilities.

### **Loan Origination Fees**

It has been brought to the attention of the AICPA savings and loan association committee that the guidance on recognition of loan origination fee income included in the March 10, 1980, Letter is being interpreted by some practitioners and others to allow for current fee recognition, without cost justification, based on the Federal Home Loan Bank Board rule in effect prior to the amendment effective December 21, 1979 (one percent of the amount of loan plus \$200 for non-construction loans, and two percent plus \$200 for construction loans).

The Audit and Accounting Guide, *Audits of Savings and Loan Associations*, revised edition, sets forth the basic principle that origination fees, to the extent they represent a reimbursement of origination costs, should be recognized in income at the time the loans are made and that any fees in excess of such costs should be accounted for as an adjustment of yield. Without changing this basic principle, the guide did note that since determination of origination costs is difficult, fees allowable under the then (1979) FSLIC regulations could be recorded as income at loan closing. This approach was based on the conclusion in the guide that such fees generally did not exceed origination costs at that time. In view of the increased size of individual loans resulting from inflation and other factors, fees based on the pre-1979 FSLIC regulation now often may exceed origination costs and the assumption that such guidelines can still be used is not consistent with the basic principle in the guide.

There was no intention for the guidance issued on March 10, 1980, to deviate from the basic principle that current recognition of origination fee income is limited to the costs of origination. Under present generally accepted accounting principles, current origination fee income should be recognized only to the extent of actual origination costs.



### **Firm's "Loss of Reputation" Satisfies RICO Requirement**

An accounting firm's loss of reputation and financial losses due to a client's fraudulent scheme to improve its 1977 financial statements constitute a "racketeering enterprise injury" under the Racketeer Influenced and Corrupt Organizations Act (RICO). So ruled the U.S. Court of Appeals for the Eighth Circuit last month (*Alexander Grant & Co. v. Tiffany Industries, Inc.*).

In the case, the firm charged that Tiffany's officers forged signatures and otherwise altered documents that it requested during its audit of the company's 1977 financial statements. The client attempted to inflate the value of inventory and claim revenues from uncompleted sales to a foreign government. The firm asserted that it suffered "theft of services" from its increased effort on the audit. It also sought to recover the expenses of a resulting SEC investigation, which it said damaged its reputation.

The Appeals Court, in reversing a lower court decision, ruled that the client remained in business through a pattern of mail and wire fraud and that pattern caused injury to the auditor.

The court's ruling contrasts with recent rulings in the Second Circuit denying civil RICO claims unless plaintiffs allege something more than injury from underlying predicated acts and, in one case, unless there has been a prior criminal conviction under RICO.

### **FASB Moves on Defeasance Concerns**

At a meeting September 12, the Financial Accounting Standards Board approved a revised draft of a final technical bulletin which would curtail the use of a controversial accounting technique known as "instantaneous in-substance defeasance." Robert Wilkins, FASB project manager, said that the new bulletin, which will be issued shortly, precludes the use of this technique as an extinguishment of debt. He emphasized, however, that the bulletin did not prohibit legal defeasance of debt, which would extinguish or retire debt from a company's balance sheet.

Last November, the board approved SFAS no. 76, which allows in-substance defeasance under certain conditions (see December 12, 1983, *Letter*). The board, in February, issued a proposed technical bulletin aimed at clarifying the fact that the provisions of SFAS no. 76 were intended to apply to the in-substance defeasance of previously outstanding debt, not newly issued debt. "This new bulletin says that debt issued in contemplation of a defeasance doesn't qualify under SFAS no. 76," added Wilkins.

Also, at the meeting, the board agreed to issue an Invitation to Comment on accounting for nonrefundable fees and costs associated with originating or acquiring loans.

In another matter, the FASB, earlier this month, agreed to issue two final technical bulletins on accounting for the effects of the newly enacted tax act on Domestic International Sales Corporations (DISCs) and stock life insurance companies. The technical bulletins, which will be issued shortly, will be substantially the same as the proposed technical bulletins issued in August.

### **Recent ASB Actions**

At its meeting earlier this month, the Institute's auditing standards board agreed to ballot on an exposure draft of a proposed statement on auditing standards entitled *Obtaining Evidential Matter Regarding the Completeness Assertion*. This proposed SAS would respond to practice problems auditors face in gathering sufficient audit evidence to evaluate the assertion that all transactions and accounts that should be presented in the financial statements are so included. It would also provide guidance in relating the standards of field work to this assertion. The proposal is expected to be exposed for comment in December.

The board also discussed, for the first time, a draft section of a proposed guide on providing guidance on partial presentations of prospective financial statements.

**NSPA Document  
Deemed Deficient**

The AICPA's technical information service cautions members not to look to the document entitled *Standards of Generally Accepted Tax Accounting Principles* issued recently by the National Society of Public Accountants for guidance in preparation of or reporting on tax basis financial statements (see November 28, 1983, *Letter*). The NSPA document is not consistent with AICPA literature, which members are bound to follow under the Institute's Code of Professional Ethics.

Appropriate guidance for reporting on tax basis financial statements can be found in SAS no. 14 and SSARS no. 1. Also, the nonauthoritative AICPA *Audit and Accounting Manual* provides illustrations of reports and financial statements. For further information, see the October *Journal of Accountancy*.

**Two AICPA  
Members Expelled;  
One Suspended**

Under the AICPA bylaws, membership in the Institute shall be suspended without a hearing should there be filed with the secretary of the Institute a judgment of conviction imposed upon any member for a crime punishable by imprisonment for more than one year and shall be terminated in like manner upon the similar filing of a final judgment of conviction.

- ☐ On May 31, 1984, the membership of Ronald Gary Ralston of Dalton, Georgia, was terminated following receipt by the secretary of evidence that his judgment of conviction of theft had become final. Mr. Ralston had been suspended from Institute membership on July 15, 1983, because of this conviction in the Superior Court of Whitfield County, Georgia, which was then being appealed (see October 10, 1983, *Letter*).
- ☐ On June 4, 1984, the membership of David Allen Crabtree of Knoxville, Tennessee, was terminated following receipt by the secretary of a final judgment of conviction in U.S. District Court of transferring property with intent to defeat the bankruptcy laws.
- ☐ On June 15, 1984, the membership of Jackie Baines of Dalton, Georgia, was suspended pending appeal of his conviction in the Superior Court, Whitfield County, Georgia, of theft by receiving stolen property.

**NOTICE OF AICPA PUBLIC MEETINGS**

**Accounting and Review Services**

The accounting and review services committee will hold an open meeting on October 24 at the AICPA offices in New York starting at 2:00 p.m. The meeting will focus on a discussion of the auditing standards board project on levels of assurance.

The next scheduled meeting is December 4-5 in the Dallas/Fort Worth area.

**Accounting Standards**

An open meeting of the accounting standards executive committee will be held October 31 to November 2 at the Ramada Renaissance in Washington, D.C., starting at 8:30 a.m. each day. The agenda has not been set yet, but will be reported by the meetings telephone information service.

The next scheduled meeting is December 11-13 in Fort Lauderdale, Florida.

**Auditing Standards**

An open meeting of the auditing standards board will be held October 23-25 at the AICPA offices in New York starting at 8:30 a.m. each day. The agenda, which has not been set yet, will be reported by the meetings telephone information service.

The next slated meeting will be December 4-6 at the AICPA in New York.

**Agenda and changes will be reported by the meetings telephone information service.**

**The number is 212/575-5694.**

## Washington Briefs

*Retirement Equity Law Signed*—Late last month President Reagan signed into law the Retirement Equity Act of 1984 (P.L. 98-397). Key provisions increase periods of service that a qualified plan must take into account for minimum participation and vesting purposes; change survivor benefit requirements; and allow reassignment of qualified plan benefits in divorce proceedings.

*Hearings Held on Fringe Benefits*—Two subcommittees of the House Ways and Means Committee conducted two-day hearings earlier this month on employer-provided fringe benefits. The hearings involved gathering information on the economics of such benefits, including their prevalency, according to the committee.

*Hearings Delayed on Generation-Skipping Proposals*—The House Ways and Means Committee postponed September hearings on plans to repeal or modify the generation-skipping transfer tax to allow for legislation to be drafted implementing proposals made last year. The hearing is slated for October 2.

*IRS Churns Out Regulations*—Recently the IRS has issued a number of regulations reflecting recent law amendments, including this year's tax act. Some areas of interest deal with pre-ERTA tax straddles (IR-84-91); a list of investors in potentially abusive tax shelters (TD 7969); and the 30 percent withholding repeal (TD 7967).

*Exemption for Churches on FICA*—Churches and qualified church-controlled groups that for religious reasons are opposed to paying social security (FICA) taxes may file an election of exemption from such taxes, according to a recent IRS release. Generally, churches established before October 1, 1984, must file their elections by October 30, 1984. The IRS says the form for making the election is Form 8274 and that it is available at IRS offices.

*IRS Too Lenient?*—A recent Government Accounting Office report criticized the IRS for being too lenient in abating penalties for taxpayers providing "flimsy" excuses for failing to abide by the law. The IRS abated \$2.1 billion of such penalties in 1983, compared to \$1 billion in 1981.

*More Long Form 1040s Filed in 1984*—More taxpayers filed long Form 1040s in 1984 than the previous year due to increased use of itemized deductions resulting from higher incomes. This was one of many figures in the recent IRS report on income statistics. A sharp increase was also found in filing of the new simplified 1040EZ form, which the IRS attributed to an overall rise in first-time filers.

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## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036

Second-class postage paid at New York, N.Y.  
and at additional mailing offices.

October 8, 1984  
Vol. 64 No. 17

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# The CPA Letter

**A Semimonthly News Report Published by the AICPA**

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**1983-84 AICPA  
Annual Report  
to Be Issued**

Continuing recent policy, the Institute's 1983-84 annual report will be included as a supplement to the November *Journal of Accountancy*. Outgoing Institute Chairman B. Z. Lee and AICPA President Philip B. Chenok, in their message to members, note that "the pace of change has quickened markedly in the accounting profession this year."

Key factors impacting the profession include "expanded computer technology, changes in business practices, growth in the profession's ranks and an expansion of services." The Institute, in response to these factors, has moved "to accelerate its search for ways to improve existing services for members and to develop new ones," according to the message.

Among the steps taken "to prepare the profession for a future which promises to be very different from anything previously experienced" are issuance of reports from the future issues committee and special committees reviewing the activities of the two sections of the division for CPA firms—the SEC practice section and the private companies practice section. One of the 14 major issues identified by the future issues committee in their report (see September 10 *Letter*) relates to the changes in the composition of AICPA membership. "A major contribution to the study of this subject is expected from the AICPA mission committee," which is currently considering the Institute's role.

Another effort taken is the work of the special committee on standards of professional conduct that is "examining the relevancy of present ethical standards to professionalism, integrity and commitment to both quality service and the public interest." The committee is currently gathering opinions from both CPAs and informed users of CPA services "to bring into sharper focus diverse attitudes and expectations."

In concluding the message, Messrs. Lee and Chenok note that the AICPA, "approaching its centennial and the membership approaching the quarter-million mark, has become a substantial and influential body through its ability to serve members and the public."

A limited number of copies of the report also will shortly be available, free, from the AICPA order department (212/575-6426).

**GASB Issues  
Two Proposed  
Technical Bulletins**

The Governmental Accounting Standards Board is currently considering comments on two proposed technical bulletins—no. 84-1, *Purpose and Scope of GASB Technical Bulletins and Procedures for Issuance*, and no. 84-2, *Demand Bonds Issued by State and Local Governmental Entities*.

The first proposal describes the procedures for issuing such bulletins, as well as their purpose and scope which is to provide timely guidance on certain financial accounting and reporting problems relating to state and local governmental entities.

The second proposal deals with whether bonds issued by such entities should be classified as long-term debt if the bond agreements contain a demand feature requiring the issuer or his agent to buy back the bonds upon demand by the shareholder.

Copies of the proposed technical bulletins may be obtained from the GASB, Order Department, High Ridge Park, Stamford, Conn. 06905. Comments on the second draft are due by October 20.

### **Kelley Appointed AICPA Group Vice President**

Thomas P. Kelley has been appointed group vice president—professional, on the AICPA staff. In announcing the appointment to this newly created senior staff post, AICPA President Philip B. Chenok said that the new position is a result of a recommendation by outside consultants who have recently completed a management and operational audit of Institute staff activities.

Mr. Kelley has been on the Institute staff for more than ten years in a variety of accounting and auditing positions, most recently as vice president—technical. In his new position, he will have overall responsibility for staff support activities in accounting, auditing, management advisory services and related technical areas; state regulation of CPAs; the uniform CPA examination; and the division for CPA firms.

A search is now underway to implement a companion recommendation for another position, that of group vice president—operations. This position would focus on coordinating and expanding services to members and would also oversee staff activities for CPE and publications, and finance and administration.

In another staff change, Mr. Chenok has announced that Robert D. Miller, vice president—local practitioner activities, has decided to leave the Institute earlier than originally contemplated to undertake a less rigorous schedule. Subsequently, he agreed to become managing editor of the *CPA Journal*, a publication of the New York State Society of CPAs.

### **FASB Issues Invitation to Comment on Loan Fees**

As expected, the Financial Accounting Standards Board recently issued an Invitation to Comment entitled *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans*, which identifies issues to be considered by the board before issuance of an exposure draft.

The issues raised in this document include the timing of revenue and expense recognition as well as the balance sheet classification of any deferred fees or costs. "The board added this project to its agenda because of concerns that current guidance provides for different accounting for similar transactions by the various types of institutions in the financial services industry," according to Mark Pearson, FASB practice fellow.

Comments on the document are due by December 31.

In another matter, the board issued two technical bulletins on accounting for the effects of this year's tax act on Domestic International Sales Corporations (DISCs) and stock life insurance companies. The tax act forgives income taxes on certain income relating to export sales of a DISC not distributed to its parent company by January 1, 1985. Another of the act's sections requires that stock life insurance companies recompute their policy reserves for tax purposes as of January 1, 1984.

For further information on the above documents, contact the FASB, Order Department, High Ridge Park, Stamford, Conn. 06905.

### **IIA Exposes Draft on Fraud Reporting**

The Institute of Internal Auditors recently exposed a draft of its third statement on internal auditing standards entitled *Deterrence, Detection, Investigation and Reporting of Fraud*, which establishes guidelines for internal auditors regarding their responsibilities in this area and for reporting on their findings.

Comments are due by November 15. For further information, contact Richard A. White, IIA, P.O. Box 1119, Altamonte Springs, Florida 32701.

## **Guide on Local Governmental Auditing to Be Exposed**

A proposed audit and accounting guide entitled *Audits of State and Local Governmental Units* will be exposed for comment shortly. Prepared by the Institute's state and local government accounting committee, the draft is a proposed revision to the 1974 audit guide of the same name, as subsequently amended.

The proposed guide has been prepared to assist the independent auditor in examining and reporting on financial statements of governmental units other than the federal government. It is intended to be an initial reference source for the independent auditor who is new to the field of governmental accounting and auditing.

The Governmental Accounting Standards Board has the authority to set accounting standards for state and local governmental units. The discussion of accounting in this exposure draft is limited to providing guidance on existing standards and practices. It does not advocate answers to unresolved accounting issues.

The proposed guide discusses initiatives by the U.S. Office of Management and Budget to have various federal grant programs of a recipient audited in a single audit rather than on a program by program basis. Federal legislation has been introduced to make such an approach mandatory. The AICPA has been working on guidance for performing such single audits and anticipates issuing an exposure draft of an audit guide on that topic. Depending on developments subsequent to exposing this draft, the Institute intends to combine the guide on single audits with this guide.

Comments on the draft are due 90 days after issuance. Copies of the draft will be available later this month and may be obtained from the AICPA order department (Product no. G00281).

## **Two Agencies Seek Applicants for Fellowship Programs**

The Securities and Exchange Commission is now accepting applications for its professional accounting fellow program. Two individuals will be selected for two-year terms beginning early next year. Applicants should have at least one year's experience at the manager level in public accounting or in an organization providing equivalent experience.

During their terms, fellows will deal with a broad range of accounting, auditing and disclosure issues and will interact with various regulatory and standard-setting groups.

A brochure describing the program and application procedures is available from the Office of the Chief Accountant, SEC, 450 Fifth Street, N.W., Washington, D.C. 20549.

Also, the Federal Home Loan Bank Board is currently accepting applications for its professional accounting fellow program. One individual will be chosen this fall. Applicants should be familiar with the technical accounting and auditing literature, particularly relating to savings and loans.

For further information on the program, contact Robert Wolpert, manager, corporate finance, chief accountant's section, FHLBB, 1700 G Street, N.W., Washington, D.C. 20552.

### **NOTICE OF AICPA PUBLIC MEETING**

#### **Auditing Standards**

The auditing standards board will hold an open meeting at the AICPA offices in New York on October 24, starting at 8:30 a.m., and on October 25, from 9:30 a.m. to noon. The basic topic on the agenda is consideration of a draft for exposure on levels of assurance. Any agenda changes will be reported by the meetings telephone information service (212/575-5694).

The next meeting is slated for December 4-6 in New York.

## Washington Briefs

**No Flat Tax in 1985**—A flat tax or “anything that looks like a flat tax” will not be approved by Congress next year, Senate Finance Committee Chairman Robert Dole (R-Kan.) said in a recent speech. He added that if the President does ask for revenue increases over the next two or three years, base-broadening mechanisms will probably be proposed. The committee resumed its hearings on tax reform last month.

**Hearing Set on Tax Shelters**—The IRS has scheduled a hearing on November 15 on new rules requiring tax-shelter promoters to register their offerings and to keep lists of investors.

**New Twist for Civic Activities Cost**—Taxpayers who serve their communities at low pay or no pay can deduct out-of-pocket expenses connected with such work even if they exceed income from the activities (Rev. Rul. 84-110). Previously, such expenses in excess of compensation were deductible only as charitable contributions.

**SEC Begins EDGAR**—On September 24, SEC Commissioner John S. R. Shad initiated the commission’s electronic filing and retrieval system, known as EDGAR. The system will allow companies to make filings electronically with the SEC. After a year or so of testing, the commission will begin to make such corporate data available to investors and analysts using computers.

**Two Generation-Skipping Bills Offered**—Two members of the House Ways and Means Committee recently introduced two pieces of legislation to reform the generation-skipping transfer tax. The bills (HR 6260 and HR 6261) are based on proposals from the Treasury Department and the American Law Institute, respectively. The bills were introduced for discussion purposes, said the congressmen, adding that neither bill is being endorsed. Hearings on this tax issue were slated for October 2.

**RICO Reform Urged**—In urging amendment of the Racketeer Influenced and Corrupt Organizations Act during a speech last month, SEC Commissioner Charles L. Marinaccio said that the statute was so broadly drafted that the very legitimate businesses that were intended to be protected have now become “racketeer” defendants under the statute.

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## The CPA Letter

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1211 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10036—8775

Second-class postage paid at New York, N.Y.  
and at additional mailing offices.

October 22, 1984  
Vol. 64 No. 18

# The CPA Letter

**A Semimonthly News Report Published by the AICPA**

## **AICPA Annual Meeting Covers Multitude of Areas**

More than 2,000 CPAs, spouses and their guests attended the Institute's 97th annual meeting in Atlanta, October 14-16. They participated in meetings on a wide range of various technical topics and sampled cultural and social attractions with a taste of Southern hospitality.

The first official function was the meeting of council on Saturday, October 13 (see page 3). The annual business meeting, chaired by outgoing Chairman Bernard Z. Lee, was called to order on Monday morning. Special achievement awards were presented during the meeting, including the AICPA Gold Medal for Distinguished Service. The winners of the Sells Awards, those CPA candidates achieving the highest grade totals on the Uniform CPA Examination, were introduced as well as other guests of the Institute. A panel of senior committee chairmen, moderated by President Chenok, discussed current professional activities and expected future developments. In addition to presentations by the incoming and outgoing chairmen, guest speakers during the next two days included

- ☐ Former U.S. President Jimmy Carter;
- ☐ Dr. Martin Feldstein, professor of economics at Harvard and former chairman, President's Council of Economic Advisers;
- ☐ John Naisbitt, chairman of the Naisbitt Group and author of the best-selling book, *Megatrends*.

The technical agenda consisted of both plenary and simultaneous sessions. Mini-conferences focused on such topics as marketing services to clients in a changing environment, developing and marketing of litigation support services, strategies for financial analyses and forecasts and projections.

New this year, in addition to other format changes, were "Accountants World," a product-exposition of computer vendors and other suppliers, and two conferences occurring immediately following the annual meeting: one on executive developments in microcomputer technology and the other, a one-day MAS conference.

For further information, see the December *Journal of Accountancy*.

## **Council Elects AICPA Officers and Directors; Fills Council Vacancies**

Ray J. Groves of Ohio moved up to chairman of the board when council elected Herman J. Lowe, Louisiana, as vice-chairman at its October 13 meeting. Mr. Groves is chairman and chief executive of Ernst & Whinney and Mr. Lowe heads H. J. Lowe & Company, Baton Rouge.

The new vice-presidents for 1984-85 are

- ☐ Paula H. J. Cholmondeley, New Jersey;
- ☐ Merle S. Elliott, Maryland;
- ☐ Charles G. Steele, New York.

Reelected treasurer was Don J. Summa, New Jersey.

Also, the following were elected to the board of directors for three years: Robert C. Ellyson, Florida; Mahlon Rubin, Missouri; Barry B. Findley, Arkansas; and Alan B. Levenson, District of Columbia.

Because of the elections of Ms. Cholmondeley as vice-president and Mr. Rubin as a member of the board of directors, Ulyesse Le Grange, Texas, and J. Fred Kubik, Kansas, were elected members-at-large of council for one year to fill the unexpired terms.



**NASBA Holds Annual Meeting; Elects New Officers**

The National Association of State Boards of Accountancy held its 77th annual meeting September 16-19 in New Orleans. The three-day series of sessions, focusing on the theme "Enhancing the Effectiveness of State Regulation of Public Accountancy," drew state board members from virtually every state.

Speakers included Ray J. Groves, incoming AICPA chairman, and C. Hunter Jones, NASBA president. Panel sessions at the meeting dealt with future issues affecting state regulation of public accountancy; assessing entry-level competence; establishing and enforcing standards of professional behavior; and effective enforcement.

On the slate of NASBA officers elected for 1984-85 were Sandra A. Suran (Oregon), who succeeded Jones to the office of president, and Thomas Iino (California), president-elect. New vice-presidents are Richard L. Denny (Ohio), Albert J. Derbes III (Louisiana) and Harold D. Garter (Michigan). Elected treasurer was Wilbert H. Schwotzer (Georgia). C. Hunter Jones succeeded to the office of immediate past president.

More on the conference will appear in a forthcoming issue of the *Journal of Accountancy*.

**Recent Publications**

The Public Oversight Board, which monitors the SEC practice section of the AICPA's division for CPA firms, recently issued its sixth annual report. It comments on the board's activities, particularly the peer review process. The POB has also published a booklet entitled *Audit Quality: The Profession's Program* to be distributed as a companion piece to the annual report. The booklet describes the profession's voluntary self-regulatory program.

Copies of the annual report and the audit quality booklet are available from the POB, 540 Madison Avenue, New York, N.Y. 10022.

*Index to Accounting and Auditing Technical Pronouncements*—This latest edition shows what technical pronouncements may bear on certain practice situations. It covers all technical standards and semiauthoritative material issued by the AICPA, FASB and SEC in effect as of July 1, 1984. Price is \$18.50; \$14.80 to members (Product no. 003403).

*Accountant's Index-1983*—The 32nd supplement, this new edition lists more than 13,000 items on accounting, auditing, taxation, management and other topics which have been published during 1983. Price is \$60; \$48 to members (Product no. 001075). A quarterly subscription service is also available at \$160; \$128 to members.

Both publications are available from the AICPA order department (212/575-6426).

**Highlights of Recent Pronouncements Available**

A listing of the highlights of technical standards issued in the past year is available, free, on written request, from the AICPA order department. The two-page listing, which will be published in the November issue of the *Practicing CPA*, cites the principal features of FASB statements and interpretations, statements on auditing standards, the most recent statements on standards for accounting and review services and statements on standards for management advisory services. Ask for product no. G00350 from the AICPA order department.

### **Council Affirms May Ethics Decisions**

At its October 13 meeting in Atlanta, the Institute's council affirmed its actions of last May at which time it declined to authorize a mail ballot of the membership on a proposed amendment to Ethics Rule 302 to limit the prohibition on contingent fees to independence-related engagements. It had also instructed the professional ethics executive committee not to issue its proposed interpretation of Rule 503 which, among other things, dealt with the circumstances under which a member could remit commissions to a client without being in violation of the rule (see May 28 Letter).

These issues were considered by council at the request of the Colorado Society of CPAs (contingent fees) and the New York State Society of CPAs (commissions). Each society introduced a resolution in its separate area of concern which was substantially the same as those proposed last spring. Both motions were defeated by a show of hands. Therefore, council's previous actions on these issues remain in effect.

Another motion, which would have suspended enforcement of Rule 302 until publication of the report of the special committee on standards of professional conduct or for one year, whichever occurred first, was also defeated.

### **Gregory Honored at Annual Meeting**

The accounting profession's highest award, the AICPA Gold Medal for Distinguished Service, was awarded posthumously to past Institute Chairman William R. Gregory at the annual meeting. Mrs. Virginia Gregory accepted the award on behalf of her husband.

Long active on Institute committees, he was chairman of the CPE executive committee and the first chairman of the accounting and review services committee which established standards for reviews and compilations.

His interests were primarily with the needs of local practitioners. He urged practitioners to continually dedicate themselves to the basic principles of the profession—adherence to standards, exercise of individual responsibility, independence of attitude and self-restraint.

Another award, the AICPA's Medal of Honor, had been previously awarded to John J. McCloy, retiring chairman of the Public Oversight Board (see August Letter).

### **FASB Draft Modifies Changing Prices Disclosures**

The Financial Accounting Standards Board recently issued an exposure draft of a statement that would eliminate the historical cost/constant dollar requirements of SFAS no. 33, *Financial Reporting and Changing Prices*, for companies reporting current cost information. Comments on the draft are due by November 9 and the board hopes to issue a final statement by year-end.

In 1979, the board issued SFAS no. 33 on an experimental basis. It required large public companies to present supplementary financial information using two methods of reporting the effects of changing prices—historical cost/constant dollar disclosures restate certain data in the primary financial statements for the effects of general inflation while current cost/constant dollar disclosures report the effects of both specific price changes and general inflation. The board has concluded that historical cost/constant dollar information is used less frequently than the other method.

The board is also expected to issue a second exposure draft that would essentially consolidate SFAS no. 33's remaining requirements and previous amendments. This draft would have a longer comment period.

In other matters, the board is expected to issue shortly a final technical bulletin on in-substance defeasance (see September 24 Letter) and a proposed technical bulletin on collateralized mortgage obligations (CMOs), a financing arrangement used primarily by the thrift industry.

For further information, contact the FASB, Order Department, High Ridge Park, Stamford, Conn. 06905.

## May 1984 Sells Award Winners Announced

For the May 1984 Uniform CPA Examination, 67,108 candidates completed a total of 240,797 papers, a slight decline from May 1983.

The winner of the Sells Gold Medal, given for the highest grade total on the examination, was John A. Fuerst of Langley, Washington. A graduate of Columbia University, he is presently with Peat, Marwick, Mitchell & Co. in Seattle.

Todd J. Sladky of Bemidji, Minnesota, was the winner of the Sells Silver Medal, the second highest award. A graduate of Bemidji State University, he is currently with Miller, McDonald, Erickson and Moller, Ltd. in Bemidji.

The Sells Bronze Medal for the third highest grade total was won by Virginia K. Metzger of Bloomington, Indiana. A graduate of Indiana University, she is currently a consultant for the firm of Stephen R. Miller in Bloomington.

In addition, 122 certificates with high distinction are being awarded. The presentation of the medals for the May and last November's examinations was made in conjunction with the Institute's annual meeting. The November 1983 winners were: Gold Medalist—George R. Kamperschroer, Madison, Wisconsin; Silver Medalist—Jeffrey H. Kinrich, Studio City, California; and Bronze Medalist—Judith Ann Barnett, Midwest City, Oklahoma.

## An Updated Look at the AICPA Membership

The latest analysis of the AICPA membership files shows steady growth in members—more than 12,000 in each of the most recent years. In fact, Institute membership has more than doubled during the last decade.

In terms of composition, there have been some continuing trends. The percentage of members in public accounting continues to trend downward—from 59.1 percent in 1975 to 51.5 percent this year—while the percentage of members in business and industry continues to climb—from 30.3 percent to 38.4 percent over the same period. The percentage of members in education and in government during the same period has stayed almost the same.

Within the practicing group, members associated with smaller firms remain in the majority at more than 57 percent. The medium-sized firm representation has shown the greatest growth, rising from 10.1 percent in 1975 to 15.1 percent this year. During that same period, the percentage of members in the largest firms has dropped from 38.1 percent in 1975 to 27.8 percent.

The following tables were compiled as of July 31, the end of the Institute's fiscal year.

### SOURCES AND OCCUPATIONS OF AICPA MEMBERSHIP

	1975	1980	1983	1984
Total AICPA Membership .....	112,494	161,319	201,764	218,855
Public Accounting .....	59.1%	54.1%	53.0%	51.5%
Business and Industry .....	30.3	35.5	36.9	38.4
Education .....	2.9	2.9	2.7	2.7
Government .....	3.4	3.3	3.3	3.3
Retired and Miscellaneous .....	4.3*	4.2	4.1	4.1

\*Estimated

	1975	1980	1983	1984
Membership in Public Practice .....	66,506	87,339	106,870	112,673
Firms with one member .....	22.1%	23.8%	22.4%	23.1%
Firms with 2 to 9 members .....	29.7	33.1	34.0	34.0
Firms with 10 or more members, except the 25 largest firms .....	10.1	13.0	15.0	15.1
25 largest firms .....	38.1	30.1	28.4	27.8

## Nominations Committees Elected

The following were elected by council to serve on the 1984-85 nominations committees for the AICPA and the two sections of the division for CPA firms:

### AICPA

\*Bernard Z. Lee, Texas  
Ronald S. Cohen, Indiana  
W. Thomas Cooper, Jr., Kentucky  
Leonard A. Dopkins, New York  
Charles E. House, Minnesota  
William B. Keast, California  
Charles E. Keller III, Maryland  
Robert L. May, New York  
Russell E. Palmer, Pennsylvania  
Glenda L. Rhodes, Alaska  
Robert D. Thorne, Illinois  
\*chairman

### PCPS

Bernard Z. Lee, Texas  
Ronald S. Cohen, Indiana  
Leonard A. Dopkins, New York  
Charles E. House, Minnesota  
William B. Keast, California  
L. Martin Miller, Pennsylvania  
Richard W. Paddock, Ohio

### SEC Practice Section

Bernard Z. Lee, Texas  
Ronald S. Cohen, Indiana  
W. Thomas Cooper, Jr., Kentucky  
William B. Keast, California  
Charles E. Keller III, Maryland  
Robert L. May, New York  
Richard W. Paddock, Ohio

## Highlights of AcSEC Meeting

At its meeting last month the Institute's accounting standards executive committee took the following actions:

- ☐ Approved submission to the FASB of an issues paper, *Accounting by Stock Life Insurance for Annuities, Universal Life Insurance and Related Products and Accounting for Nonguaranteed-Premium Contracts*, subject to final clearance by AcSEC of the revised advisory conclusions. This paper addresses issues on accounting for new types of insurance products including universal life insurance.
- ☐ Approved a letter of comment on the FASB's Invitation to Comment, *Accounting for Compensation Plans Involving Certain Rights Granted to Employees*.
- ☐ Approved a letter of comment on the FASB's exposure draft of a proposed statement of financial accounting standards entitled *Disclosure of Postretirement Health Care and Life Insurance Benefits Information*.
- ☐ Discussed a proposed statement of position entitled *Accounting for Asserted and Unasserted Medical Malpractice Claims and Related Issues*. AcSEC voted to reexpose the proposed SOP because it believes that some entities, such as physicians and other health care specialists, may not have been aware that the statement would apply to them.
- ☐ Discussed an issues paper entitled *Recognition of Assets by Common Interest Realty Associations*. AcSEC concluded that a common interest realty association should recognize items as its assets only if it has title or other evidence of ownership in its name and control over the disposition of the assets. This conclusion will be included in a future audit and accounting guide on this topic.

### ADVICE ON STANDARD BANK CONFIRMATIONS

Recently a small but increasing number of banks have begun to adopt policies of charging either CPAs or their clients for processing standard bank confirmations. In all circumstances that the AICPA is aware of where banks have adopted such policies, efforts by CPAs, their clients (the bank's customers) or the applicable state CPA society have been successful in convincing bankers to eliminate such charges by emphasizing the mutual benefit of this important audit procedure to both the bank and its customers.

The AICPA believes that the most preferable way of handling these situations will be at the local or regional level where the parties involved are known in the local financial community. Letters should be written to the bank officers, highlighting the advantages of the bank confirmation procedure and suggesting a meeting with bank representatives, if necessary.

If such efforts yield unsuccessful results, members or state societies should contact Ellen Downey Hylas at the AICPA (212/575-6401) and the Institute will assist in resolving this matter.

## Washington Briefs

*Four Tax Cases on Supreme Court Docket*—The U.S. Supreme Court began a new term October 1 with four tax cases on its docket that it had previously agreed to review. One case will decide whether a taxpayer whose return is filed late partly due to his attorney's negligence may avoid the late filing penalty (*U.S. v. Boyle*, no. 83-1266). This case is to be argued this month with the other three cases to be argued later in the term. More tax cases are also expected to be granted review during the court's term.

*Rules on Charitable Split-Interests Issued*—The IRS, in IR-101, clarified certain timing rules for reforming gifts and bequests of charitable split-interests that fail to meet the charitable deduction requirements for income, estate and gift tax purposes. These timing rules were set by the 1984 tax act.

*Shelter Registrations Delayed*—In IR-84-102, the IRS announced that the initial deadline registration for tax shelters has been postponed to October 31 from September 30 to allow more time to develop additional guidance. In August, the IRS had issued temporary regulations explaining tax shelter registration requirements and penalty provisions (see September 10 Letter).

*AICPA Urges RICO Reform*—A letter from the Institute urging legislative action to amend the Racketeer Influenced and Corrupt Organizations Act (RICO) was introduced into the Congressional Record on October 5 by Senator Strom Thurmond (R-S.C.). The letter asks Congress "to re-examine the RICO civil remedy and stem the tide of abuse that is now rising in the federal courts." In his remarks, Thurmond said that "a problem may be developing involving the sudden growth of the private suit remedy of the RICO statute," citing data from the American Bar Association indicating that about 118 private civil RICO cases have been reported in the last three years.

*Single Audit Measure Passed*—"The Uniform Single Audit Act of 1984" was passed earlier this month and, at presstime, awaited the President's signature. The Institute had testified on behalf of the legislation last spring (see April 9 Letter).

*Temporary FSC Rules Issued*—Earlier this month, the IRS issued temporary regulations (TD 7983) giving guidance on electing status as a foreign sales corporation (FSC). Under the new provisions, which were part of the 1984 tax act, an FSC must be a foreign corporation and a part of the FSC's income attributable to export profits, but not export investment income, is tax exempt.

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## The CPA Letter

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# The CPA Letter

**A Semimonthly News Report Published by the AICPA**

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## **Leadership in Turbulent Times Stressed by Chairmen**

In their speeches at the AICPA's annual meeting last month, both the Institute's incoming and outgoing chairmen emphasized the need for strong leadership in a rapidly changing environment confronting the accounting profession. "We can and we must do what is necessary to shape our future and the future of those who aspire to a career in this profession," said outgoing Chairman B. Z. Lee.

He added that during his term as chairman, he spent a considerable amount of time focusing on the efforts of the AICPA's special committee on standards of professional conduct for CPAs, chaired by George D. Anderson. "I'm convinced more than ever of the significance of its deliberations and the impact its work can have on this profession and its future," noted Lee. A report from the committee is expected next spring.

"There is considerable evidence that we are in the midst of an extended period of transition from a relatively tradition-bound profession to a highly competitive group of business activities, which employ a growing range of skills to fulfill a role that is less sharply defined than in the past," said incoming Chairman Ray Groves. Demand for a wider range of nonaudit services as well as tax and financial planning is growing, Groves noted. In addition, consumer protection efforts of the past two decades have caused a change towards open competition among all the professions. "We are still adjusting to this new way of building our practices and the changes are likely to continue for some time," he said.

The incoming chairman concluded by noting that this turbulent future also presents many new opportunities. "Optimism, innovation and quality in all our services and willingness to be full participants in the free enterprise system should be the keys to our continuing success," he added.

## **FASB Issues Benefits Statement; Two Technical Proposals**

The Financial Accounting Standards Board has just issued a statement entitled *Disclosure of Postretirement Health Care and Life Insurance Benefits Information*. The statement, SFAS no. 81, is essentially the same as the draft exposed last summer (see *July Letter*) except with respect to the provisions on multiemployer plans which are not covered by the statement. The board has issued this statement as an interim measure, pending completion of its project on postemployment benefits (other than pensions).

SFAS no. 81 will be effective for financial statements issued for periods ending after December 15, 1984, for such plans provided in the U.S. and foreign countries.

In other matters, the board recently issued a proposed technical bulletin (no. 84-e) providing guidance on when certain nonbusiness groups may allocate the joint costs of direct mailings containing both a fund-raising appeal and a program message. Under the proposal, the joint costs would be allocated when the mailing contains a bona fide program message and the recipient has recently shown more than a general interest in the group's program. Comments are due by December 28.

The board also exposed a proposed technical bulletin (no. 84-d) clarifying that collateralized mortgage obligations (CMOs) should be reported as liabilities on the issuer's balance sheet unless certain conditions in the proposal are met. Comments are due by December 26.

Copies of the documents may be obtained from the FASB, Order Department, High Ridge Park, Stamford, Conn. 06905.

## **Recent Disciplinary Actions**

Under the AICPA bylaws, membership in the Institute shall be terminated without a hearing should there be filed with the secretary of the Institute a final judgment of conviction imposed upon any member for a crime punishable by imprisonment for more than one year.

- ☐ On August 6, 1984, the membership of Paul Richard Ashe of Ocala, Florida, was terminated following receipt by the secretary of a final judgment of conviction in a U.S. district court of fraud by wire and interstate transportation of falsely made and forged securities.
- ☐ On August 7, 1984, the membership of Benjamin Ostfield of Minneapolis, Minnesota, was terminated following receipt by the secretary of a final judgment of conviction in a U.S. district court of using the U.S. mails to defraud and of attempted tax evasion.
- ☐ On August 14, 1984, the membership of Carl Roger Radcliffe, Jr. of Knoxville, Tennessee, was terminated following receipt by the secretary of a final judgment of conviction in the North Carolina Superior Court of conspiracy to embezzle and of embezzlement.

At a meeting on August 29, 1984, of a hearing panel of the Joint Trial Board Division's National Review Board, Joseph V. Trapani of San Diego, California, was found guilty of violating Rules 202 and 203 of the Institute's Code of Professional Ethics in connection with his examination of an accountant's reports on the financial statements of two clients. As a result of this decision, Mr. Trapani, who was present with counsel at the hearing, is required to complete 40 hours of continuing professional education courses in accounting and auditing subjects within one year and, if he does not, the panel has reserved the right to reconvene to consider appropriate disciplinary action.

There is no appeal from a decision of the National Review Board and the decision, therefore, became effective on August 29, 1984.

On September 26, 1984, a regional trial board hearing panel voted unanimously to end a two-year suspension of membership which it had imposed on a member in 1983. The member had been required to complete 120 hours of continuing professional education courses in specified practice areas within the two-year period of suspension. The member successfully completed the required courses within 15 months and made application to the hearing panel to modify its decision and end the suspension.

## **Corbett Named Vice President— Communications**

In keeping with the Institute's greater emphasis on communications, William J. Corbett has been appointed to the AICPA's newly created position of vice-president—communications. In announcing the appointment, AICPA President Philip B. Chenok said that this new position "will help us maintain sound relations with our various publics and constituencies and deal with public, political and professional issues in a manner that will enhance the image of CPAs, the accounting profession and the Institute." Chenok added that "Mr. Corbett's considerable experience in the communications and public relations fields will be directed toward those objectives."

Until recently, Mr. Corbett was director of corporate public relations with Avon Products, Inc. He is also a member of the American and New York State Bar Associations and serves on the United States Information Agency Public Relations Advisory Committee.

## SEMIANNUAL REPORT OF JOINT ETHICS ENFORCEMENT PROGRAM ACTIVITY

January 1-June 30, 1984

In line with the Institute's policy of reporting on disciplinary matters, the AICPA's professional ethics division has updated its statistics on the disposition of ethics investigations processed under the AICPA's Joint Ethics Enforcement Plan (JEEP) consisting of the AICPA's ethics division and 50 state CPA societies. This report is based on information submitted by the ethics division and 41 other JEEP participants.

The statistics cover cases, not the number of respondents in a case.

ETHICS COMMITTEE ACTIVITIES		<u>TOTALS*</u>
Investigations open at start of period	496*	
Investigations opened during period	<u>305</u>	
<i>Total Investigations</i>		<u>801</u>
Administrative Reprimands issued	46	
Constructive comment letters issued	27	
No Violation findings	165	
Prima facie cases in preparation for submission to Joint Trial Board Division	13**	
Cases Referred to Joint Trial Board Division:		
Prima facie cases for Trial Board Hearings	20***	
For action under automatic provisions of bylaws	<u>6</u>	
<i>Total Disposition of Case Investigations</i>		277
Remaining Investigations as of June 30, 1984:		
Investigations held pending outcome of litigation:		
State Society Ethics Committees	66	
AICPA Professional Ethics Division	76	
Cases under investigation:		
State Society Ethics Committees	316	
AICPA Ethics Division	<u>66</u>	
<i>Total Remaining Investigations</i>		<u>524</u>
<i>Total Investigations</i>		<u>801</u>
JOINT TRIAL BOARD DIVISION ACTIVITIES		
Members expelled under automatic provision of bylaws	2	
Members suspended under automatic provision of bylaws	<u>4</u>	6
Trial Board Hearings:		
Members admonished	1	
Peer Review required	1	
Members expelled	2	
Cases being appealed	4	
Case dismissed—respondent deceased	2	
Cases scheduled not yet heard	<u>10</u>	<u>20</u>
<i>Total Joint Trial Board Division Cases</i>		<u>26</u>

\*Total figures are not comparable from period to period because of differences in the number and identity of the state societies reporting in any given year.

\*\*Two state society members only.

\*\*\*Ten state society members only.



## **Chances on VAT Almost Nil**

Regardless of the outcome of the recent election, further moves to increase revenues will be taken, predicted retiring Congressman Barber B. Conable, Jr. (R-N.Y.), ranking minority member of the House Ways and Means Committee. Speaking at the Institute's conference on federal taxes held last month in Washington, D.C., he also predicted that the tax increase will take the form of a surtax on individuals.

"The odds on a Value Added Tax being adopted are poor," said Conable, "because the possibility of Congress passing a VAT that is simple is virtually nil. By the time they get rid of all sorts of complicating and extremely regressive provisions, such an act would raise about 36 cents in revenue." On the other hand, "a surtax would be temporary and could be used to raise significant sums of money," he added.

In another session, Philip E. Coates, associate IRS commissioner for operations, said that the number of information documents filed each year with the IRS will soon reach a trillion, up from about 650 million annually this year. He also predicted that by 1986, the IRS expects to match each incoming document with the appropriate tax return.

The balance of the conference focused on 1984 in perspective, with discussions of major tax changes during the year and their ramifications. Other sessions dealt with personal financial planning, Subchapter S revisions and compensation planning techniques for closely held corporations.

## **Recent AICPA Publications**

**Division for Firms Directory**—The division for CPA firms recently published its third directory of member firms as of September 1. Alphabetical entries include the city and state of each firm. Copies will be provided free to each firm and its practice units, AICPA educator members, college and university libraries with accounting programs, the Robert Morris Associates and each state society. Up to 20 copies will be available gratis from the AICPA order department; additional copies are \$1.25 each; \$1 to members (Product no. 018841).

**Accounting Trends and Techniques, 1984 Edition**—The latest edition of this reference shows what accounting and reporting techniques were used in 1983 and early 1984 annual reports of some 600 companies. The survey includes more than 1,000 examples of current practice and numerous tables. Price is \$44; \$35.20 to members (Product no. 009842).

**New Approaches for Greater Accounting Success**—Formerly entitled *Accounting in Action*, this book, the Fall 1984 edition, presents 12 major articles specially culled from the past year's *Journal of Accountancy* on the basis of their practical value and current interest. Price is \$7.50; \$6 to members (Product no. 054195).

All publications are available from the AICPA order department (212/575-6426). If net total is under \$10, add postage and handling of \$2.

The latest program in the CPA Video Journal series is no. 37, *Personal Financial Planning—A Potential New Profit Center for CPA Firms*. For further information, contact Teresa Zimmerer at the AICPA (212/575-5573).

All AICPA issues papers are now on line to be accessed by subscribers to the Institute's National Automated Accounting Research System (NAARS), a computerized accounting and auditing research tool. For further information, contact Hortense Goodman at the AICPA (212/575-6393).

## **Limitation Proposed on Nominations Committee**

At the annual meeting of members held last month, a resolution was approved expressing the view that members of the nominations committee not be nominated for any of the positions dealt with by the committee. The Institute was asked to submit to the membership an amendment to the bylaws that would give effect to that position.

**Statement on  
Life Reinsurance  
Issued**

A statement of position entitled *Auditing Life Reinsurance* was recently issued. The SOP, which is essentially the same as the draft exposed last spring, supplements the AICPA industry audit guide, *Audits of Stock Life Insurance Companies*, and provides guidance regarding the application of generally accepted auditing standards in auditing life reinsurance. It also provides guidance on the auditor's consideration of internal accounting controls for life reinsurance of ceding companies and assuming companies.

The statement describes internal control procedures for ceded and assumed reinsurance as well as providing guidance on the auditor's tests of selected reinsurance contracts, transactions and related balances.

Copies of the statement are available from the AICPA order department (Product no. 013405).

**Accounting  
Function in  
Spotlight**

"The accounting function is undergoing a microscopic examination with a critical focus," SEC Commissioner James C. Treadway, Jr., said recently. In a speech last month in Denver, the commissioner said that the profession is under a spotlight as well as issuers, officers and employees of issuers who are involved in financial reporting matters, boards of directors, audit committees and investment bankers.

The pressures come from "many quarters," he added—some "are intentionally issuer-generated; some . . . occur because of management stubbornness or adherence to unrealistic goals; and some because boards of directors and audit committees who do not exercise proper care or who do not have adequate sensitivity. . . ." Treadway concluded that "it is crystal-clear that nonaccountants in various ways apply significant, subtle pressures on the accounting function."

An answer to all these pressures, he added, is increased professionalism, not only in the profession, but of issuers, their executives and directors, and other professionals advising issuers. "If professionalism on the part of all parties is not forthcoming, I fear that the commission's enforcement statistics will mount, to no one's great satisfaction. The spotlight on all will continue to be bright and harsh, and calls for dramatic change and more governmental intrusion into the corporate structure will become more shrill," warned Treadway.

**NOTICE OF AICPA PUBLIC MEETINGS**

**Accounting and Review Services**

The accounting and review services committee will hold an open meeting on December 4-5 in the Amfac Hotel at the Dallas/Fort Worth airport starting at 9:00 a.m. each day. The agenda has not been set.

**Accounting Standards**

An open meeting of the accounting standards executive committee will be held December 11-13 at the Marriott Hotel in Fort Lauderdale, Florida, starting at 8:30 a.m. each day. The agenda has not been set.

**Auditing Standards**

The auditing standards board will hold an open meeting on December 4-6 at the AICPA offices in New York. The agenda has not been set.

**Federal Taxation**

An open meeting of the federal taxation executive committee will be held December 9 and 12 at the Orlando Hyatt House in Orlando, Florida, starting at 1:30 p.m. each day. The agenda for the meeting is being developed.

**Agenda and changes will be reported by the meetings telephone information service.  
The number is 212/575-5694.**

## Washington Briefs

**Two Tax Bills Passed**—On October 31, President Reagan signed into law two fringe benefit bills dealing with educational assistance (HR 2568) and group legal services (HR 5361). The latter measure contains an imputed interest compromise which modifies those controversial provisions of the 1984 tax act which go into effect next year. The compromise would delay until next July 1 the provisions for applying imputed interest rates adopted by the tax act for use in determining whether there is unstated interest and the amount of such interest.

**Tax Interest Rate at 13%**—The annual interest rate charged on tax underpayments and paid on overpayments will rise to 13 percent—from 11 percent—on January 1. The tax interest rate is adjusted semiannually and compounded daily.

**Ruling on Athletic Scholarships Suspended**—The Treasury Department recently suspended Rev. Rul. 84-132 relating to charitable contributions to athletic scholarship programs pending a public hearing early next year. In that ruling, the IRS held that a taxpayer who acquired the right to obtain preferred seating to a university's football games by making a payment to a specific athletic scholarship could not deduct the amount paid to become a "member" of that program.

**Standard Mileage Remains Unchanged**—The IRS recently announced that the standard mileage rate for cars used in business in 1984 will remain at 20.5 cents, the same as in 1983.

**New Rules on Luxury Auto Owners**—The 1984 tax act imposed new limits on the tax benefits available for luxury cars and certain other "listed property," including personal computers. The IRS recently released temporary regulations on the amount of cost recovery deductions and investment tax credit allowed for taxpayers purchasing such cars for use in trade or business (see October 24 *Federal Register*).

**Single Audit Law Signed**—"The Single Audit Act of 1984" was signed into law on October 19. In general, the law will replace the grant-by-grant audit approach of state and local governments and require each such unit receiving \$100,000 or more annually in federal aid to obtain an annual or biennial independent audit of its financial operations. The Institute had testified last spring on behalf of this legislation.

**IRA Administrative Fees Deductible**—In Rev. Rul. 84-146, the IRS has ruled that, in addition to the maximum deduction for contributions, administrative fees in connection with an IRA are also deductible.

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## The CPA Letter

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# The CPA Letter

**A Semimonthly News Report Published by the AICPA**

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**SECPS Review  
Committee  
Report Issued**

The Institute recently issued the report of the SECPS review committee, a special committee formed in February 1983 to review the objectives, organizational structure and functions of the SEC practice section of the Institute's division for CPA firms. The report complements a similar review and evaluation of the private companies practice section (PCPS), which was issued last spring (see April 23 *Letter*). The report evaluates the section's performance during its first six years, describes its operation and how it fits into the overall scheme of public and private regulation and presents a program to aid in its future growth.

The overall evaluation, notes the report, "is that the structure of the section is sound and that it is carrying out its major programs in an effective manner." A number of initiatives and actions, however, are recommended to improve the section's effectiveness. Of these, several relate to the need to inform the public and various constituencies of the section and its efforts. An effective public information program, says the report, should be developed and implemented. Also, periodic public reports on the scope and results of the peer review program and the investigative process should be issued.

The report urges the SECPS executive committee to issue a statement of policy on the use of its authority to impose sanctions. It should stress that member firms agree to abide by the membership requirements and to undertake appropriate corrective actions for deficiencies identified as required under the peer review process.

The report calls for retention of the requirement that member firms undergo a peer review every three years and for strengthening and clarifying the requirements mandating second-partner reviews in audit engagements involving SEC clients. It recommends a number of changes to improve the operations and acceptance of the section's process for investigating cases of alleged audit failures that are administered by the special investigations committee. It calls for, among other things, clarification and changes in the scope, authority and manner of operation of that committee; dissemination of more information about its activities; and an expansion of the type of cases involving allegations of audit failures that member firms must report to include litigation and regulatory investigations which involve audits of all companies in which there is a significant public interest.

Other recommendations are aimed at expanding the benefits of membership and creating programs to improve professionalism. The SECPS should hold annual meetings of member firms, issue a quarterly newsletter, and form a joint committee with the PCPS to facilitate consistent solutions to common problems.

The SECPS executive committee accepted the report and has begun implementation of several of the recommendations. A task force is developing approaches to others. In a letter included in an appendix to the report, John W. Zick, SECPS executive committee chairman, voices support for the report's general conclusions and gives a progress report on the implementation of its recommendations. A public relations firm has been engaged to assist in a broad public information program for both sections of the division. The program began this fall and will extend over a 12-18 month period.

Copies of the report will be mailed to all practice units. Additional copies will be available from the AICPA order department (Product no. G00390) at \$2.50 each.

## Highlights of AcSEC Meeting

At its meeting earlier this month, the Institute's accounting standards executive committee took the following actions:

- ☐ Approved a proposed audit and accounting guide on audits of finance companies to be sent to the FASB for clearance to expose, subject to approval of a revised draft. A draft is expected to be available in the first quarter of next year.
- ☐ Approved an issues paper entitled *Application of Concepts in FASB Statement of Financial Accounting Standards no. 71 to Emerging Issues in the Public Utility Industry* for submission to the FASB. AcSEC believes that the FASB should consider all the issues in the paper when it reviews SFAS no. 71.

In other actions, AcSEC approved a letter of comment to the FASB on its exposure draft, *Accounting for Computer Software to be Sold, Leased or Otherwise Marketed*, and a letter discussing issues relating to accounting for loss portfolio transfers that are financing arrangements, subject to AcSEC's clearance of the revised letter.

AcSEC also approved a memorandum recommending disclosures on the amortization of film costs by motion picture companies for publication in the Technical Practice Aids.

## GASB Issues First Technical Bulletin

The Governmental Accounting Standards Board recently issued its first final technical bulletin (no. 84-1), entitled *Purpose and Scope of GASB Technical Bulletins and Procedures for Issuance*, which is essentially the same as the draft exposed earlier this fall (see October 8 Letter). It describes the procedures for issuing such bulletins, their purpose and scope and related information. The bulletins are aimed at providing timely guidance on certain financial accounting and reporting problems relating to state and local governmental entities.

In the bulletin, the GASB notes that it "anticipates that it will communicate primarily through the issuance of statements and interpretations." Such pronouncements, it adds, "may require extensive due process, including appointing task forces and holding public hearings."

In another matter, the board, at its meeting on November 16, approved issuance of an interpretation on demand bonds, in light of comments received in response to its proposed technical bulletin issued earlier this fall.

For information, contact the GASB, Order Department, High Ridge Park, Stamford, Conn. 06905.

## AICPA Awards Two Doctoral Grants

Two doctoral candidates have received grants-in-aid totaling \$10,000 in connection with their dissertations in accounting. The total amount budgeted for grants in the 1984-85 academic year is \$37,500, and additional recipients will be announced in the spring. The recipients are:

- ☐ Judith N. Bouley, University of Alabama, \$7,200. Topic: *An Empirical Study of FASB no. 52 and the Implications of Performance Evaluation Systems*.
- ☐ John J. Maher, Pennsylvania State University, \$2,800. Topic: *Pension Obligations and the Bond Credit Market: An Empirical Investigation of Accounting Numbers*.

Copies of several dissertations from past grants-in-aid winners are now available in the AICPA library. The *Accountants' Index* will list any dissertations by subject matter as they are received in the future.

**Two Issues  
Papers on  
Insurance  
Sent to FASB**

The Institute recently sent two issues papers on diverse accounting matters relating to life insurance to the Financial Accounting Standards Board for consideration. The first, *Accounting for Key-Person Life Insurance*, discusses various proposed methods of accounting by policyholders for the cost of key-person life insurance. It also discusses a proposed method of accounting for such insurance purchased to fund deferred compensation or other postemployment benefits. Because of the current diversity in practice, the accounting standards executive committee recommends that the FASB consider this matter.

The second paper, *Accounting by Stock Life Insurance Companies for Annuities, Universal Life Insurance and Related Products and Accounting for Nonguaranteed-Premium Contracts*, discusses accounting by stock life insurance companies for various relatively new forms of long-duration life insurance contracts.

Advisory conclusions of the Institute's accounting standards executive committee are included in both issues papers. Copies of both papers are available by contacting the AICPA order department.

**NOTICE TO PRACTITIONERS ON ADC LOANS**

The AICPA savings and loan associations committee has been asked about aspects of questions on real estate acquisitions, development and construction (ADC) arrangements in connection with the financial statements of certain financial institutions. The committee has prepared the following guidance in response to those questions.

Accounting for ADC arrangements was the subject of a notice to practitioners issued by the accounting standards executive committee and published in the *Journal of Accountancy*, November 1983. The notice stated, in part:

Financial institutions, particularly savings and loan associations, increasingly are entering into real estate acquisition, development or construction (ADC) loans on which they have virtually the same risks and potential rewards as those of owners or joint ventures.

The notice, which provides guidance for practitioners on accounting for real estate ADC arrangements, described the ADC arrangements that might create potential problems as arrangements that "are usually structured so that the lender participates in expected residual profit on the ultimate sale or use of the project."

In applying that guidance in the 1983 notice to practitioners, the following additional matters should be considered in accounting for such arrangements:

- ☐ Some ADC arrangements might include personal guarantees of the borrowers or third parties. The enforceability of such guarantees in the applicable jurisdiction (of the borrower or third party) should be considered. Also, business reasons that might preclude the financial institution from pursuing such guarantees should be assessed. Those business reasons could include the length of time required to enforce a personal guarantee. Even if the guarantee is legally enforceable, there is a presumption that a guarantee should not affect the accounting unless it is normal business practice in that jurisdiction to enforce guarantees on similar transactions. The financial statements and other pertinent information of the guarantors should be considered in determining the value of such guarantees.
- ☐ Agreements are often made that outline the terms of the expected residual profit to be retained by the institution, for example, "equity kickers." Such agreements may not be a part of the mortgage loan agreements. Consequently, the auditor should be aware of the possibility that such agreements may exist and should design audit procedures accordingly. Those procedures could include inquiries and requests for written representation.
- ☐ Many ADC arrangements have been bought by other financial institutions. These matters and those discussed in the November 1983 notice also apply to purchased ADC arrangements.

**AICPA Member  
Expelled;  
Two Suspended**

Under the AICPA bylaws, membership in the Institute shall be suspended without a hearing should there be filed with the secretary of the Institute a judgment of conviction imposed upon any member for a crime punishable by imprisonment for more than one year and shall be terminated in the like manner upon the similar filing of a final judgment of conviction.

- ☐ On September 4, 1984, the membership of Joseph T. Cashman of New Castle, Delaware, was terminated following receipt by the secretary of the Institute of a final judgment of conviction in a U.S. District Court on his plea of guilty to a charge of mail fraud.
- ☐ On August 13, 1984, the membership of Solomon M. Weiss of Hillside, New Jersey, was suspended pending appeal of a judgment in a U.S. District Court of racketeering, perjury and mail fraud.

On September 6, 1984, a hearing panel of the Joint Trial Board Division's Regional Trial Board XI voted to suspend Douglas H. Forde of Pittsford, New York, from membership in the AICPA for two years. Mr. Forde was found to have violated Rule 202 of the Institute's Code of Professional Ethics, which requires members to comply with generally accepted auditing standards.

The panel directed that Mr. Forde complete 60 hours of specified CPE courses during the period of suspension and that his practice undergo a quality review within 18 months of the panel's decision and if he does not, that he be expelled from membership without further proceedings.

Mr. Forde had appeared with legal counsel before the panel at an earlier date, and the panel had voted to defer its decision for several months pending receipt of evidence that counsel was attempting to obtain and which it claimed could be favorable to Mr. Forde. When no such evidence was received, the panel reconvened to reach its decision.

Mr. Forde and his counsel were notified in writing of the panel's decision and of Mr. Forde's right to request a review of the decision within 30 days. No request for a review of the decision was made and the decision therefore became final on October 6, 1984.

**Deadline for  
Disability  
Income Plan  
Is January 1**

Institute members wishing to begin or increase their coverage under the AICPA Long Term Disability Income Plan are reminded that the cutoff date is January 1. Material on the plan is being mailed to all members. The plan is available to virtually all Institute members—those in public practice, private industry, government, education or elsewhere employed. Special features of the plan include

- ☐ Monthly disability income benefit payments ranging from \$500 to \$5,000 for disabilities caused by either sickness or accident.
- ☐ Disability benefits that may be paid for life after a 26-week waiting period if the disability occurs before 50 (up to 65 if incurred after age 50).
- ☐ A voluntary rehabilitation program under which an insured CPA may return to work while receiving reduced benefits. Training and education expenses are included.

For further information, contact Rollins Burdick Hunter Co., 605 Third Avenue, New York, N.Y. 10158 (telephone 800/221-4722; in New York, collect at 212/661-9000, extension 436).

**Institute  
Committee  
Members  
Sought**

Members who wish to volunteer for one of the approximately six hundred AICPA committee openings that are expected to become available starting in October 1985 should write to Torny Berntsen at the Institute. She will provide a booklet listing current committees and their objectives, approximate time commitment and a biographical form which, when completed, will supply the necessary information for consideration by the incoming chairman of the board. To be considered for the 1985-86 committee year, the bio form should be returned by February 15, 1985.

### **CPE Information Hotline Proves Successful**

The Institute's CPE Information Hotline, which provides a toll-free telephone line for information on CPE products, is now a year old, and judging from the number of calls received, it has been a resounding success. The service responds to inquiries, alerts state societies and associations to new courses, seminars and publications, and provides members with product updates.

Hans Spengler, CPE marketing services manager, recently reported that the hotline received a record number of calls in October. Of the 717 inquiries, the majority dealt with conferences, with other callers primarily interested in group study, self-study courses and catalogs.

The special toll-free number is 800/242-7269, which spells 800/AICPA NY. In New York State, call 212/575-5696. Calls to this or other 800 numbers cannot be transferred to other AICPA telephone lines.

Also continuing to be successful are the AICPA's toll-free telephone lines for member inquiries to the technical information service and the library. The numbers are: *Library*—800/223-4155; in New York State only, 800/522-5434; *Technical Information Service*—800/223-4158; in New York State only, 800/522-5430. Members may want to note these numbers for future reference.

### **Upcoming AICPA Conferences**

The AICPA's Twelfth National Conference on Current SEC Developments will be held January 8-9, 1985, at the Capital Hilton Hotel in Washington, D.C. The two-day conference focuses on current developments concerning SEC reporting, particularly during 1984. Speakers include SEC Chairman John S. R. Shad; A. Clarence Sampson, SEC chief accountant; and SEC Commissioner James C. Treadway, Jr. Price is \$375; for further information, contact the AICPA meetings department.

*A Reminder*—Registration is still open for the 1984 AICPA Firm Administrators Conference to be held at the Hyatt Regency Atlanta on December 6-7. The conference is geared to those who deal with firm administrative duties. Price is \$495. For on-site registration information, contact Phil Neagle at the AICPA (212/575-5581).

The Institute has scheduled a series of free NAARS advanced training sessions for subscribers to the AICPA's National Automated Accounting Research System who have completed the Mead Data Central training. Sessions are December 6, January 9 and 23, February 6 and March 13—all at the Institute's New York offices. To register, contact Hortense Goodman at the AICPA (212/575-6393).

### **Doctoral Fellowships Awarded to Minority Faculty**

Six minority faculty members have accepted doctoral fellowships sponsored by the AICPA for the 1984-85 academic year. The recipients, all receiving \$7,500 grants, are

- ☐ Frasier W. Brickhouse of Virginia State University, Petersburg, attending Virginia Commonwealth University, Richmond.
- ☐ Sharon G. Finney of Clark College, Atlanta, attending Georgia State University, Atlanta.
- ☐ Lawrence Gulley of North Carolina A&T State University, Greensboro, attending Texas A&M University, College Station.
- ☐ Dorothy M. Mattison of Morgan State University, Baltimore, attending George Washington University, Washington, D.C.
- ☐ Priscilla D. Slade of Jackson State University, Jackson, Mississippi, attending the University of Texas at Austin.
- ☐ Henry Thomas of Jackson State University, Jackson, Mississippi, attending Mississippi State University.

The program is aimed at helping the minority accounting faculty of developing institutions pursue doctoral study.



## Washington Briefs

*Indexing Begins in 1985*—Due to income tax indexing provisions of the 1981 tax act, taxpayers will save more than \$9 billion in taxes next year, according to Treasury Secretary Donald Regan. In a release issued last month, Regan said that nearly 80 percent of the tax savings will benefit workers earning less than \$50,000 annually.

As a result of the law, the personal exemption and the zero bracket amount will increase, and all marginal tax rate brackets will be adjusted about 4.1 percent. The basis for the adjustment is the rise in the Consumer Price Index for the 12-month period ended last September 30.

*Accounting Firm Merger Permitted*—The Justice Department has announced that it will not try to block the pending merger of Price Waterhouse & Co. and Deloitte Haskins & Sells. Their proposed merger would not raise significant competitive concerns in any relevant market in which the merging firms compete, it said.

*IRS Review Underway*—The oversight subcommittee of the House Ways and Means Committee recently began “a comprehensive review of the administration of the federal tax laws by the IRS.” In particular, the review will focus on IRS effectiveness, problems, taxpayer relations and communications. It plans to report by next spring and may recommend legislation. Hearings are planned and interested groups, including the AICPA, are expected to testify.

*More Tax Cases Can Use Simplified Methods*—Taxpayers can now use the Tax Court’s expedited procedures to contest deficiencies of up to \$10,000, according to a recent IRS release. This year’s tax act doubled the deficiency limit for cases to help ease the backlog of cases on the court’s docket.

*FHLBB Acts on S&L Accounting*—The Federal Home Loan Bank Board, at a meeting last month, took two actions affecting savings and loan institutions and their accounting methods. The board proposed rules to ban federally insured savings institutions from using deferral and amortization of gains or losses for sales of mortgages and mortgage-related debt securities acquired after October 24, 1984. The board also approved an accounting policy statement aimed at thrifts that have booked certain real estate acquisition, development and construction (ADC) transactions as loans when such transactions essentially may be investments.

*PBGC Publishes Agenda*—The Pension Benefit Guaranty Corporation recently published its semiannual agenda of regulations and proposals that it will consider during the next year (see October 22 *Federal Register*).

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## The CPA Letter

American Institute of Certified Public Accountants, Inc.  
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Second-class postage paid at New York, N.Y.  
and at additional mailing offices.

December 10, 1984  
Vol. 64 No. 21

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# The CPA Letter

A Semimonthly News Report Published by the AICPA

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## Treasury Tax Proposals Featured at AICPA Tax Conference

The Treasury Department's sweeping proposals for restructuring the nation's income tax system are a key issue for discussion at the AICPA's tax division conference being held in Orlando, Florida, this week.

Among the many proposals are replacing the current 16 tax brackets for individuals with three: 15, 25 and 35 percent; reducing the top corporate rate from 46 percent to 33 percent, repealing the investment tax credit and restructuring accelerated depreciation provisions. Also, deductions for state and local income, property and sales taxes would be discontinued.

"The normal wage earner will likely benefit," said Albert Ellentuck, chairman of the AICPA's tax division, but he noted that individuals with large itemized deductions or investment in such areas as the stock market and tax shelters "could be hurt or else not benefited as much as they might initially think."

While not addressing specifics, AICPA President Philip B. Chenok said in a statement that the Institute favors tax simplification and "looks forward to working with the Administration and the Congress in providing support for the ongoing effort to make the tax system more fair and equitable for all."

In addition to the Treasury proposal, other sessions at the conference will deal with such areas as compliance problems in the 1984 Tax Reform Act, objectives in developing tax policy, new rules on changes in accounting methods and underreported income.

## FASB Statement Modifies Changing Price Disclosures

In a statement issued recently, the Financial Accounting Standards Board eliminated the historical cost/constant dollar requirements of its 1979 standard (SFAS no. 33) for companies reporting current cost information.

The board had issued SFAS no. 33 on an experimental basis with a commitment to review the statement within five years. That statement required large public companies to present supplementary financial information using two methods of reporting the effects of changing prices—historical cost/constant dollar disclosures and current cost/constant purchasing power disclosures. "The board decided to eliminate the historical cost/constant dollar disclosure requirements because it believes that requiring two different methods of reporting the effects of changing prices detracts from the usefulness of the information," said FASB Project Manager Robert N. Freeman.

SFAS no. 82, *Financial Reporting and Changing Prices: Elimination of Certain Disclosures*, is effective for fiscal years ending on or after December 15, 1984, with earlier application permitted.

In other matters, the board will shortly issue for comment three exposure drafts. The first would amend APB Opinion no. 15, *Earnings Per Share*, to replace the "cash yield" test with an "effective yield test" in determining whether convertible securities are common stock equivalents in the primary EPS computation. The second draft would amend APB Opinion no. 26, *Early Extinguishment of Debt*, to specify the accounting for consideration offered to convertible debt holders to encourage prompt conversion. The third draft amends SFAS no. 32 to add AICPA guides and SOPs issued after this statement was updated in 1982.

For information, contact the FASB, Order Department, High Ridge Park, Stamford, Conn. 06905.

### **AICPA Centennial Plans Move Ahead**

Preparations are currently under way for celebration of the AICPA's 100th anniversary in 1987. The yearlong celebration will begin with the Institute's 1986 annual meeting in Kansas City and include a number of activities held nationwide during the year, and will conclude with the 1987 annual meeting in New York.

The Centennial's goals will be to raise the visibility of the profession, to enhance the self-image of CPAs and strengthen their pride in the profession and to promote a renewed sense of dedication to the profession's highest ideals among members. The "Age of Accountability" will be the theme of the Centennial.

Centennial Chairman William Kanaga has appointed a number of committees to plan and direct the celebration, including a steering committee; two operating committees responsible for the Centennial annual meeting and for public relations activities to be conducted during the anniversary year; and five advisory committees representing members in industry, education and government, relations with state societies and other professional groups, and international liaison.

### **Lifo Issues Paper Sent to FASB**

The Institute recently sent an issues paper on Lifo to the Financial Accounting Standards Board. The paper discusses more than 50 financial accounting and reporting issues relating to the Lifo inventory method for which the authoritative accounting literature provides no definitive guidance. Issues covered include liquidations, interim reporting and establishment of Lifo pools. Also included are advisory conclusions.

The paper isn't intended to provide tax guidance regarding Lifo. Some advisory conclusions may be viewed as contrary to IRS positions if used for tax purposes. Accordingly, the paper advises those involved in applying such principles to become reasonably familiar with the tax literature specifically relating to the Lifo conformity requirements, since failure to comply with Lifo's tax requirements could jeopardize a company's eligibility to use this method for tax purposes.

The issues paper is available from the AICPA order department at a price to be determined (Product no. 830431).

### **Real Estate Companies Asked to Join Experiment**

The Institute's real estate accounting committee is asking real estate companies to cooperate in an experiment to accumulate information and comments on the relevance and reliability of reporting current values in financial statements of real estate companies.

Participants are being asked to prepare and submit experimental financial statements for a recently ended fiscal period in conformity with the guidelines in an experimentation booklet being distributed. In addition to submitting experimental current value financial statements, participants are asked to submit a copy of their GAAP historical financial statements, if available, and to complete the questionnaire in the booklet.

The financial statements and questionnaires are to be completed by July 31, 1985. Companies that intend to participate in the experiment should contact Judith Weiss at the AICPA (212/575-7645).

Results of the experiment will be published as an aid in providing guidance to companies wishing to report supplementary information on current values and in deciding whether GAAP should be modified.

**Securities  
Broker Guide  
Due this Month**

A new audit and accounting guide entitled *Audits of Brokers and Dealers in Securities* will be issued before year-end. Prepared by the Institute's stockbrokerage auditing subcommittee, the guide is a complete revision of the 1973 industry audit guide and the 1976 statement of position, both of the same name. It describes the conditions or procedures unique to the industry and includes guidance on specialized accounting and reporting practices and principles for such brokers and dealers.

The guide is essentially the same as the draft exposed in late 1982, except for the presentation of subordinated debt and equity, the disclosures of future and forward transactions and the SIPC annual assessment report. The guide establishes that all future and forward transactions should be marked to market currently, with the effect recorded in the income statement.

Copies of the guide will be available from the AICPA order department (Product no. 012027).

**White House  
Conference on  
Small Business  
Set for 1986**

Representatives from many of the state CPA societies attended a small business conference for state society representatives last month in Colorado. The conference was aimed at encouraging state societies to undertake activities to benefit small business and to provide an exchange of information on types of activities which have been successful in this area.

A key objective during the conference was to discuss approaches for the profession's active participation in the 1986 White House Conference on Small Business and the regional conferences that will precede it. The first of about 60 of these conferences is expected to be held next April, with the WHC slated for mid-1986. "A similar White House Conference in 1980 was the most constructive step ever taken to improve the environment in which small business operates," said Bruce J. Harper, chairman of the AICPA's committee on small business.

**Personal Planning  
Conference  
Reminder**

Registration is still open for the Institute's Personal Financial Planning Conference to be held January 7-8, 1985, at the Caribe Hilton Hotel in San Juan. The two-day conference focuses on the various approaches and techniques involved in personal financial planning. Price is \$345 (recommended CPE credit—16 hours). For on-site registration information, contact Stacy Kosmides at the AICPA (212/575-6253).

**1984 ALPHABETICAL LIST OF MEMBERS TO BE AVAILABLE SHORTLY**

A new directory which lists the names and addresses of all members as they appeared in AICPA records as of July 31, 1984, will be ready for distribution about year-end. The directory is available to AICPA members, banks, and other organizations and persons that may need it for reference purposes.

Each entry in the directory includes the member's name and address and the year of admission to membership. Titles of nonpracticing members are shown, if available.

AICPA members who wish to order the 1984 Membership Directory are requested to do so now so that we may more accurately estimate printing needs. A charge of \$28 (\$35 for non-members) has been set to recover part of the

preparation, printing and mailing costs.

**To order**, please return this form with your check to the AICPA order department.

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## Washington Briefs

*Tax Collections Off*—Taxes collected by federal, state and local governments last year fell for the first time since 1971, according to a recent Census Bureau report. Total federal revenues dropped about 6 percent during the year. Federal, state and local debt rose from \$1.6 trillion in 1982 to \$1.8 trillion last year—a jump of 17.9 percent, the largest annual percentage increase in public debt since 1945.

*Hearing on Proposed Tax Shelter Regulations Delayed*—The IRS recently changed the date of a hearing on proposed regulations on tax shelter registrations and the requirement to maintain lists of investors in potentially abusive tax shelters. The hearing, now set for January 17, 1985, will focus on temporary regulations issued last August.

*Rules on IRA Reporting Proposed*—The IRS has proposed new regulations on the need for IRA trustees and issuers of individual retirement annuities to file annual information reports. The proposed regulations reflect changes made by the 1984 tax act and IR-83-88.

*Bush's Task Force Releases Report*—The final report of the task force on regulation of financial services, chaired by Vice President George Bush, was issued recently. The report sets forth some 50 steps for improving the federal financial regulatory system. One key point is reorganizing the three federal bank regulatory authorities into two by eliminating the FDIC's role in general bank supervision.

*SEC Accountant Positions Open*—The SEC's division of corporation finance is currently seeking applicants for staff accountant positions at the GS-12 (\$30,549) and GS-13 (\$36,327) levels. Duties include reviewing Form 10-Ks and registration statements for compliance with SEC disclosure requirements.

Applicants must be CPAs with at least three years of accounting experience, the majority with a public accounting firm with emphasis on corporate reporting. Resumes with detailed SEC-related experience can be sent to Jeanne M. Patterson, Office of Personnel, SEC, 450 Fifth St., N.W., Washington, D.C. 20549.

*Need to Cut Deficit*—"Reducing the deficit is the no. 1 priority," said Treasury Secretary Donald Regan in a recent interview. "Tax simplification should take a back seat to that," he added. The Treasury Department recently unveiled its plan to restructure the federal tax system (see page 1).

In other remarks, Regan said that the tax legislation that the President proposes to Congress next year will be quite similar to the Treasury's proposal.

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## The CPA Letter

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# The CPA Letter

A Semimonthly News Report Published by the AICPA

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## Board of Directors Highlights

At its meeting on December 6-7, the AICPA's board of directors

- ☐ Received in-depth reports on current Congressional studies into matters which concern the profession.
- ☐ Concurred with a proposal that the auditing standards board and the accounting and review services committee jointly expose a proposed statement on levels of assurance (see page 2).
- ☐ Considered the Institute's response to the proposals for tax simplification currently being discussed in Washington. The AICPA tax division is on record as favoring tax simplification.
- ☐ Discussed the potential impact of several suits brought against state accountancy boards, attacking the reservation to licensees of certain activities, including reporting on compilations, reviews and audits, and the restricted use of the title "public accountant."
- ☐ Received an update from the special committee seeking to implement the postbaccalaureate requirement by legislative initiative.
- ☐ Adopted a resolution that members of the nominations committee not be put forward to fill vacancies that are the subject of the nominating process. The board will ask council to adopt a similar implementing resolution of the bylaws.

## FASB Draft Would Continue Changing Prices Disclosures

In an exposure draft issued recently, the Financial Accounting Standards Board proposed to continue the requirement that certain major companies disclose supplementary information on the effects of changing prices on a current cost/constant purchasing power basis. The draft would also combine, without major change, all FASB standards relating to supplementary information on effects of changing prices.

Last month (see December 10 Letter), the board issued SFAS no. 82, which eliminated the historical cost/constant dollar requirements of its 1979 standard for companies reporting current cost information. "The board made a commitment to review the 1979 standard within five years," said FASB Project Manager Robert N. Freeman, noting that this exposure draft and SFAS no. 82 are products of that review process.

"The board does not believe that primary financial statements and other publicly available data provide enough information about effects of changing prices. That belief prompted the board to propose continuing its requirements to provide changing prices information, even though at this time it appears that past disclosures have not been widely used," added Freeman.

Comments on the draft, *Financial Reporting and Changing Prices: Current Cost Information*, are due by March 15, 1985. Copies may be obtained from the FASB, Order Department, High Ridge Park, Stamford, Conn. 06905.

In other board matters, the FASB is expected to issue shortly Statement of Financial Accounting Concepts no. 5, relating to recognition and measurement concepts of major elements in financial statements—assets, liabilities, revenues, expenses, gains, losses, investments by owners and distributions to owners.

### **Changing Prices Research Report Issued**

A complete report on a joint AICPA/FASB research project on audit problems relating to changing prices disclosures (constant dollar and current cost) was recently published. The project was aimed at determining the nature, extent and costs of the procedures used by auditors in complying with SFAS no. 33 and SAS nos. 27 and 28. Special emphasis was given to problems encountered by auditors and their perceptions as to the usefulness and auditability of the supplementary disclosures required by SFAS no. 33. Some conclusions from the report:

- ☐ There is little perceived client interest in changing prices disclosures. Auditors did not perceive that such disclosures are used by internal management.
- ☐ The average review of changing prices disclosures required a small percentage of engagement time and resulted only in minor adjustments to the disclosures.
- ☐ Auditors believed that both constant dollar and current cost requirements are confusing, too subjective and not very useful, but that current cost disclosures are more meaningful. SFAS no. 82 eliminates the constant dollar disclosure requirement and the FASB's recent exposure draft would continue the current cost disclosures (see page 1). These changes do not significantly affect SAS nos. 27 and 28.

Copies of the report, Auditing Research Monograph no. 6, *Auditor Reviews of Changing Prices Disclosures*, are available shortly from the AICPA order department at \$9; \$7.20 to members (Product no. 020061).

### **Draft on Completeness to be Exposed**

The Institute's auditing standards board will soon issue an exposure draft of a proposed statement on auditing standards entitled *Obtaining Evidential Matter Regarding the Completeness Assertion*. The proposal addresses practice problems in obtaining matter necessary for auditors to satisfy themselves that the financial statements are not misstated due to material omissions. It holds that

- ☐ Auditors should not rely on management's written representations as evidential matter regarding the assertion.
- ☐ Auditors should obtain evidential matter regarding the completeness of those types of transactions that they have reason to believe have occurred.
- ☐ Auditors should not rely solely on internal accounting controls over completeness as evidential matter regarding the assertion.

The proposal warns that it may be difficult to reduce audit risk to an acceptable level if the auditor places no reliance on internal accounting controls over completeness. It also provides guidance on the types of tests that can be applied to obtain evidence regarding completeness. Comments will be due by May 1, 1985.

### **Proposal on Levels of Assurance Advances**

At their meetings earlier this month, both the Institute's auditing standards board and the accounting and review services committee voted to ballot on an exposure draft on proposed attestation standards. The joint document would establish standards that

- ☐ Provide a framework for all attest engagements—engagements to report on the reliability of assertions for third party use—regardless of the subject matter or level of assurance expressed.
- ☐ Extend, but do not supersede, the ten generally accepted auditing standards.
- ☐ Make explicit three preconditions for attest services to be performed: the attestor has adequate knowledge of the subject matter; there are reasonable measurement and disclosure criteria; and the assertions are capable of reasonably consistent estimation or measurement using such criteria.

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The CPA Letter (ISSN 0094-792x), December 24, 1984. Published semimonthly, except July and August when monthly. Publication and editorial office: 1211 Avenue of the Americas, New York, N.Y. 10036—8775. Second-class postage paid at New York, N.Y. and at additional mailing offices. Copyright © 1984 American Institute of Certified Public Accountants, Inc. Postmaster: Send address changes to 1211 Avenue of the Americas, New York, N.Y. 10036—8775.

## **Tax Conference Draws Wide Interest**

The Treasury's tax proposals and a new policy of the IRS on abusive tax shelters highlighted the widely reported AICPA tax division conference held in Orlando earlier this month.

In his speech to the more than 300 participants, Commissioner of Internal Revenue Roscoe P. Egger strongly endorsed the Treasury Department's tax reform proposals. He also announced IRS plans to withhold refunds from taxpayers who invest in certain tax shelters deemed "abusive" and discussed the future of a "return-free system." Under this system, taxes would be determined by the IRS, based on withholding and information returns, and the need for taxpayers to fill out tax forms eliminated. Taxpayers would check a box on their W-2 forms authorizing the IRS to compute their taxes for the year.

Egger said that following a pilot project in Kansas City, Missouri, and Austin, Texas, the Treasury is moving ahead on a nationwide basis to freeze the tax refunds of those whose deduction claims are based on investment in what the agency would determine to be an "abusive" tax shelter.

The IRS commissioner also said that a "return-free system" could be under way as early as 1987 for taxpayers with less than \$50,000 in income, with no itemized deductions or dependents, who have been using Form 1040EZ. By 1990, Egger added, "fully two-thirds of the taxpaying public could be using this option."

In expressing high praise for the Treasury proposal, Egger called it "excellent . . . one of the finest I've seen in a career spanning 30 years."

Egger was joined in supporting the reform proposals by other Administration tax officials, including Ronald A. Pearlman, the Treasury's acting assistant secretary for tax policy. Pearlman urged practitioners, many of whom were initially cool to the Treasury report, to make their views known. "We solicit them . . . I, in fact, plead for them," he said.

Pearlman indicated that he was somewhat surprised by the volume of criticism that had been generated by the proposal, although "initial criticism from special interest groups had been anticipated by Secretary Regan as surfacing first."

Assessment of the Treasury document was also the subject of a panel discussion that included the author of the proposal, Charles McLure, the deputy assistant treasury secretary for tax policy. He said that the underlying philosophy of the tax plan was based on the economic principle that the economy is most productive when resources are allocated by free-market forces rather than by government interference in setting special tax incentives and noted that the nation's economy would be better off today if the free-market approach had been adopted in the 1930s. He prefaced his remarks by saying that the basic proposals are not new: "They have been around for 30 or 40 years."

Exception to the Treasury position was taken by another panelist, Arthur S. Hoffman of Oppenheim, Appel, Dixon & Company. He asserted that "some economists can argue we'd still be in a depression if the Treasury's proposed reform tactics had been implemented in the 1930s."

Expressing the Institute's position was Albert B. Ellentuck of Laventhol & Horwath, chairman of the AICPA's federal taxation executive committee. He said, "We intend to actively respond to the Treasury's proposals for tax reform and to other tax reform measures as they work their way through the legislative process. At present, we are reviewing the Treasury proposal from a technical standpoint to determine the level of simplification that it presents."

Ellentuck noted the testimony he delivered during Congressional hearings late this year on tax simplification and modified flat tax proposals such as the Bradley-Gephardt and the Kemp-Kasten measures. "We expressed our support for simplification then—and this has not changed."

Also during the conference, the Arthur J. Dixon Memorial Award for distinguished service in tax practice in the CPA profession was presented by Chairman Ellentuck, on behalf of the AICPA's tax division, to Bernard Barnett of Seidman & Seidman, New York City.



**Model Public  
Accountancy  
Bill Set**

The Model Public Accountancy Bill, which presents in one document the positions of both the AICPA and the National Association of State Boards of Accountancy as to desirable accountancy legislation, was issued recently. The bill, which has been approved by the boards of directors of both groups, was prepared by a special committee jointly formed by the AICPA and NASBA with the view of merging the Institute's Model Accountancy Bill, published in 1981, and NASBA's Model Accountancy Act, published in 1980, into a single document.

The bill "is intended as a forward-looking document, with provisions that both the public accounting profession and the general public should deem worthy of adoption as law," according to the committee. The bill seeks to eliminate many differing requirements for CPA certification, reciprocity, temporary practice and other aspects of state accountancy legislation in the 54 American licensing jurisdictions.

Copies of the bill have been sent to AICPA council members, state board of accountancy chairmen and administrators, members of AICPA and NASBA state society committees concerned with state legislation and others who have requested copies. Additional copies may be obtained from the AICPA order department (Product no. G00051).

**Recent  
Publications**

*Tax Planning Tips—1985*—This guide presents hundreds of tax planning and compliance techniques for minimizing taxes in light of recent law changes. The text has been updated to reflect recent developments. Price is \$17.50; \$14 to members (Product no. 075859).

*Disclosure Checklists* for 1984, developed by the Institute's technical information division, are now available. Extracted from the AICPA *Audit and Accounting Manual*, this latest edition has been updated to reflect AICPA and FASB statements in effect as of November 1984. Price is \$6; \$4.80 to members (Product no. 007353).

*Business Information Guide*—Prepared by the Institute's minority business development committee, this guide provides basic information for those setting up a small business or those who already own one. Price is \$5; \$4 to members (Product no. 012629). A Spanish-language edition is also available at the same price (Product no. 012633).

All publications are available from the AICPA order department (212/575-6426). If net total is under \$10, add postage and handling of \$2.

*A Reminder*—Single copies of the *Practicing CPA* are mailed automatically to each practice unit represented in the Institute's membership and to individual members specifically requesting to be included in the mailings. Any member wishing to receive this monthly newsletter, which deals with practice management issues, may be added to the mailing list by writing to the AICPA's membership records department.

**McRae Named  
AICPA Vice  
President—  
Technical**

AICPA President Philip B. Chenok recently announced the appointment of Thomas W. McRae to the position of vice president—technical. In announcing the appointment, Chenok said that in the post McRae assumes overall responsibility for staff work performed by the accounting standards, management advisory services and technical information divisions. He will be reporting to Thomas P. Kelley, group vice president—professional.

McRae's new assignments will involve developments related to financial accounting and reporting standards and MAS. In addition, he will continue to work with special committees on broad policy matters.

Since joining the AICPA in 1967, McRae has held a variety of technical positions and most recently was assistant to the president at the director level.

**Banking  
Conference  
Features  
Loan Loss  
Allowances**

Asset quality and the adequacy of a bank's allowance for possible loan losses were the focus of the AICPA's Ninth National Conference on Banking last month.

Preston Martin, vice chairman of the board of governors of the Federal Reserve System, called upon independent auditors to step up their "impact" on institutions. He said the auditor is in a strategic position to review management's lending procedures, policies, and objectives and should document his findings in the management letter. The review is particularly important when a bank's objective is growth. "Good accounting, good reserving and the timely write-off of assets lead to good management decisions," Martin said. "We cannot do our job without your help," he added.

Michael P. McLaughlin, professional accounting fellow at the Securities and Exchange Commission, said that large loan loss provisions offset by nonrecurring credits to income "do not go unnoticed" by the SEC staff as such action might raise questions about the adequacy of provisions in prior periods. McLaughlin also discussed other problems the SEC staff has observed with the allowance for loan losses and said that more enforcement actions are likely.

The Comptroller of the Currency's analysis shows that the allowance for loan losses is not growing as fast as nonperforming loans, according to Zane D. Blackburn, director of bank accounting at the OCC. He emphasized that it is not appropriate to "spread out" a large charge-off over several periods; the charge-off must be taken in the period in which it occurs. Blackburn indicated that OCC examiners will shortly receive a circular directing regulatory examination attention to the allowance for loan losses.

Participants at the conference's concurrent session, "Current Auditing Issues," were told that independent auditors are also focusing their attention on the allowance for loan losses. They were reminded of the banking committee position that the objective of the audit of the allowance for loan losses, as stated in the AICPA's *Audits of Banks*, is to evaluate the reasonableness of the recorded allowance. The auditor should consider the quality of the credit process, industry concentrations and loan participations as well as the following factors listed in the bank audit guide in the evaluation:

- ☐ Current trend of delinquencies.
- ☐ Loans classified by supervisory agency examiners.
- ☐ Excessive loan renewals and extensions.
- ☐ Absence of current financial data related to borrowers and guarantors.
- ☐ Borrowers experiencing such problems as operating losses, marginal working capital, inadequate cash flow, or business interruptions, such as involuntary conversions due to fire loss or condemnation.
- ☐ Loans secured by collateral that is not readily marketable or is susceptible to deterioration in realizable value.
- ☐ Loans in industries experiencing economic instability.
- ☐ Inadequately documented loans.

**NOTICE OF AICPA PUBLIC MEETINGS**

**Accounting and Review Services**—The accounting and review services committee will hold an open meeting January 21-22, 1985, at the Ramada Renaissance Hotel in Atlanta starting at 9:00 a.m. each day.

**Accounting Standards**—An open meeting of the accounting standards executive committee will be held January 29-31, 1985, at the AICPA offices in New York starting at 9:00 a.m. each day.

**Auditing Standards**—The auditing standards board will hold an open meeting in New York at the AICPA offices on January 22-23, 1985, starting at 8:30 a.m. each day.

**Agendas and changes will be reported by the meetings telephone information service.**  
**The number is 212/575-5694.**

## Washington Briefs

**Related Party Transactions Rules Proposed**—The IRS recently issued proposed regulations relating to 1984 tax act changes in available deductions resulting from transactions between related taxpayers. The rules deal with deductions, timing of deductions and losses in certain transactions between related taxpayers, including a partner and a partnership.

**Taxpayers Anxious for Reform**—In a speech last month, IRS Commissioner Roscoe P. Egger said that early results from a study on taxpayer attitudes show that 80 percent of taxpayers feel the present system is unfair and that one in four taxpayers believes that more than half the public cheats on its returns.

**Regan Supports Treasury Proposal**—Treasury Secretary Donald Regan, in a recent speech, defended the recent sweeping proposals for restructuring the tax system (see December 10 Letter). Regan added that the Administration will adopt some tax reform proposal and present a bill early next year after consultation with Congress and the public. He called tax reform “the right thing to do” and stressed that the Administration had no intention of using tax reform to raise taxes.

**Hearings Set on Foreign Withholding**—A public hearing will be held January 28, 1985, on information reporting and backup withholding in light of the repeal of the 30 percent withholding tax on interest paid to nonresident aliens from certain U.S. debt investments.

**Proposals on Mortgage-Backed Securities Issued**—The Federal Home Loan Bank Board recently issued proposed regulations on accounting for transactions involving the sale and repurchase of mortgage-backed securities. The proposal, in the form of a policy statement, deals with accounting for reverse repurchase agreements, among other things.

**New Rules on FSCs**—The IRS recently issued two sets of temporary regulations relating to Foreign Sales Corporations (FSCs). One set, in question-and-answer form, deals with the requirements for FSC status, how to elect such status and defines various terms. The second set deals with foreign management and foreign economic process rules. Both sets of regulations are effective for taxable years beginning after 1984. The FSC tax incentives become effective this January 1.

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## The CPA Letter

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